



CHURCHiLL



ANNUAL REPORT 2020



CHURCHILL®

Over 225 years of... **INNOVATION, PASSION & EXPERTISE**

Within the hospitality sector, the choice of tableware must meet the highest standards for presentation, practicality and performance. Over 225 years of innovation, passion and expertise make Churchill the natural partner for providing tabletop solutions.

The Churchill brand has achieved global recognition and is a reputable supplier of the highest quality ceramics. Respected for service excellence, product quality, environmental responsibilities and product innovation.





Company Profile

Churchill China plc is a manufacturer of innovative performance ceramic products serving Hospitality markets worldwide.

Our principal business services the growing Hospitality market worldwide, providing high performance tableware and other products to a number of sectors. Our customers include pub, restaurant and hotel chains, sports and conference venues, health and education establishments and contract caterers. We are the market leader in hospitality tableware in the UK and have significant and growing positions in many export markets.

We also manufacture and source product sold through Retail customers for consumer use in the home, again in many markets across the world.

At the heart of our business are our UK based design, technical and production operations. We offer a high level of service and design and manufacture an engineered performance product. Our steady investment in new product development produces a leading edge range meeting exacting customer requirements. We maintain our manufacturing and technical excellence through a consistent programme of investment in improved capability process development and new manufacturing technology.

We maintain a strong, ungeared balance sheet. We aim to improve performance steadily on a long term basis and to generate cash each year to reinvest within our business and to provide an attractive return to shareholders.

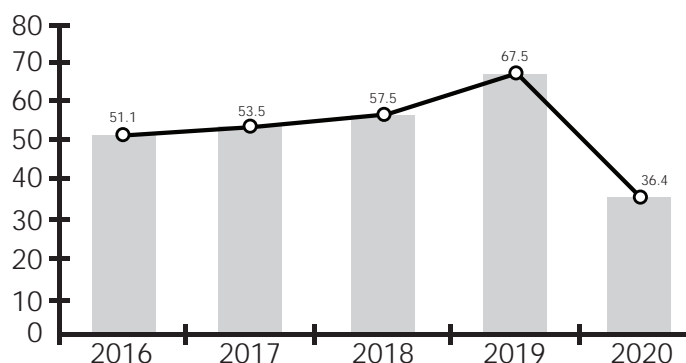
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Five Year Performance

Revenue (£m)

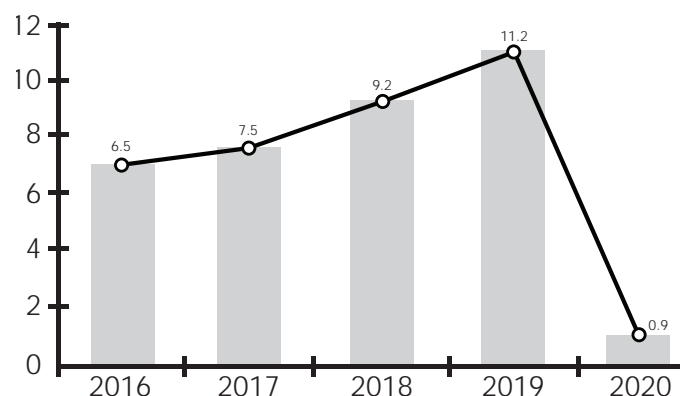
£36.4m ↓ 46%



Revenue reduced to 54% of 2019 levels due to the restrictions placed on global hospitality markets.

*Operating Profit (£m)

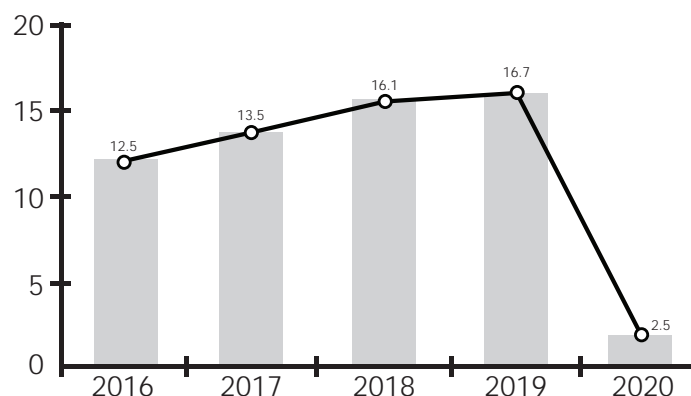
£0.9m ↓ 92%



Despite the reduction in revenue, business cost levels were carefully managed throughout the period resulting in an operating profit before exceptional items of £0.9m

*Operating Margin (%)

2.5% ↓ 14.2%

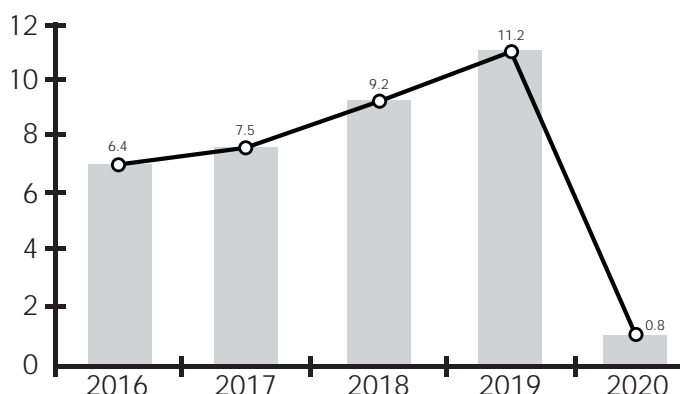


Further progress was made in the year on the conversion of sales to innovative, higher margin, value added products. Overall margins were reduced by the operational gearing effect of our factory fixed cost base.

* Excluding exceptional items.

*Profit before Income Tax (£m)

£0.8m ↓ 93%



Profit before income tax reduced to £0.8m before exceptional items as a result of the reduced revenue levels and the operational gearing effect of fixed costs within the manufacturing operation.

Other Highlights

- Adjusted basic EPS* down 92% to 6.5p
- Basic EPS down 99% to 1.0p
- Cash generated from operations £1.8m (2019: £11.3m)

* Adjusted basic earnings per share and adjusted diluted earnings per share are calculated after deduction of the post tax effect of exceptional items.

"Churchill is a long established resilient business with strong foundations."



Financial Highlights

	2020 £'000	2019 £'000
Revenue	36,362	67,502
Operating profit before exceptional items	922	11,242
Exceptional items	(757)	117
Operating profit	165	11,359
Share of results of associate company	-	(22)
Net finance cost	(74)	(44)
Profit before exceptional items and income tax	848	11,176
Exceptional items	(757)	117
Profit before income tax	91	11,293
Dividends paid	-	3,356
Key ratios		
Operating margin before exceptional items	2.5%	16.7%
Earnings before interest, tax, depreciation, amortisation and exceptional items (£000)	3,512	13,594
Earnings before interest, tax, depreciation and amortisation (£000)	2,755	13,594
Adjusted basic earnings per share*	6.5p	81.7p
Basic earnings per share	1.0p	82.6p
Adjusted diluted earnings per share*	6.5p	80.9p
Diluted earnings per share	1.0p	81.8p
Dividends per share paid	-	30.6p

Operating margin before exceptional items is calculated as operating profit before exceptional items as a percentage of revenue.

* Adjusted basic earnings per share and adjusted diluted earnings per share are calculated after deduction of the post tax effect of exceptional items.



Directors, Secretary and Advisers

Executive Directors

D J S Taylor
D M O'Connor
J A Roper

Non-Executive Directors

A J McWalter (Chairman) * • +
B M Hynes * • +
A C Bromfield * • +

Company Secretary and Registered Office

D J S Taylor ACA
No.1 Marlborough Way
Sandyford
Stoke-on-Trent
Staffordshire
ST6 5NZ

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
One Chamberlain Square
Birmingham
B3 3AX

Solicitors

Addleshaw Goddard
One St. Peters Sq.
Manchester
M2 3DE

Stockbrokers and Advisers

Investec Bank plc
30 Gresham St
London
EC2V 7QP

Bankers

Lloyds Bank plc
8th Floor
40 Spring Gardens
Manchester
M2 1EN

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6ZX

- * Member of the Audit Committee
- Member of the Remuneration Committee
- + Member of the Nomination Committee



Chairman's Statement

"We are well positioned to respond to the forthcoming reopening of our markets and have an improved competitive position supported by a sound operational and financial base."

Introduction

2020 was an extraordinary year for Churchill bringing many challenges. The first two and a half months of the year exemplified the success of our forward strategy delivering record Hospitality sales. The remainder of the year demonstrated the characteristics of agility, resilience and long term focus that have always underpinned our approach to business. Despite our core hospitality markets being amongst the most affected by COVID, we remained profitable across the year, maintained a strong financial position and continued to invest in and develop our business for the longer term.

We acted quickly and decisively to address the short term impacts of the pandemic on our trading and operations, reducing output levels to balance the safety of our employees with lower, but efficient, production and the maintenance of the security of our business. We were clear that we wished to continue to invest in our longer term position and as such have continued to prioritise product innovation, distribution development, improvements in our manufacturing capability and in the

sustainability of our operations. While our markets have been subdued, we have continued to reinforce our place within them, positioning us well to capitalise on the opportunities ahead.

Short term trading has remained affected by the pandemic and related government restrictions across our main markets. The majority of our markets now have clear plans in place to re-open hospitality outlets as levels of vaccination increase and virus levels fall. Market activity is starting to grow steadily and we believe that our established position will allow us to benefit as markets recover during 2021.

I would again like to thank our employees for their tremendous support and positive attitude to the challenges presented by 2020. We have asked much of them across the year and they have responded, as they always do, with determination and a clarity of purpose. I am hugely appreciative of their contribution.





Chairman's Statement

Financial Review

Total revenues fell by 46% to £36.4m (2019: £67.5m) as sales were affected by COVID-19 and the consequent restrictions on hospitality markets worldwide. Ceramics revenues were £33.1m (2019: £62.7m). External revenue from Materials was £3.3m (2019: £4.8m). UK revenues fell by £14.5m to £13.9m (2019: £28.4m). Export revenues were also lower at £22.5m (2019: £39.1m).

We saw further benefit as sales of added value product increased as a proportion of total revenue, driving higher average price levels. However this was offset by the operational gearing effect of fixed costs as our manufacturing output levels were reduced, leaving overall margins lower.

Operating profit before exceptional items fell to £0.9m (2019: £11.2m), attributable to lower absolute contribution levels from reduced revenues and lower gross margins. Overhead cost levels were carefully managed over the year to balance short term profitability, to continue to make progress against our strategic targets and to maintain our ability to recover quickly once markets re-open. Operating profit margins before exceptional items fell to 2.5% (2019: 16.7%).

Profit before exceptional items and income tax was £0.8m (2019: £11.2m) with the fall as a result of the reduction in operating profit.

Adjusted basic earnings per share before exceptional items was 6.5p (2019: 81.7p).

The need to adjust our operations to reflect the impact of COVID has resulted in one-off costs of £0.8m which have been treated as exceptional. These charges largely relate to a reduction in manpower levels consistent with lower levels of production, offset by a benefit in relation to the release of share based payment provisions.

Reported profit before tax was £0.1m (2019: £11.3m).

Basic earnings per share, including the above exceptional items, was 1.0p (2019: 82.6p)

One of our key objectives at the start of the pandemic was to manage the business in a way that preserved our cash position such that we could continue to invest in the forward development of the business. We began the year with £15.6m of cash and deposits and are pleased that we still retained £14.0m at the end of the period.

Operating cash flow remained positive at £1.8m, supported by lower working capital requirements as we managed our inventory position carefully and benefited from reduced accounts receivable. We expect working capital to increase during 2021 as our business begins to recover. Capital expenditure was carefully managed at £2.4m (2019: £5.5m) to ensure that the projects undertaken were of strategic importance. We have invested in additional manufacturing space in our main factory and further projects linked to expansion of added value production capacity, both of which are important components of our forward plan.

We continue to enjoy a strong, ungeared, balance sheet with net assets of £37.1m. Our assets are largely tangible and also give us a high degree of short term liquidity. We retain significant forward capacity to manage our cash flow and to raise additional finance if necessary.

Dividend

The Board recognises the importance of dividend income to shareholders and our approach remains that the owners of our business should receive an appropriate return for their investment. However we do not believe that it is currently appropriate to declare a final dividend for 2020. While our financial position continues to be robust, the level of certainty attributable to the expected recovery in our markets has not yet reached a position which would support the re-commencement of distributions. The Board will review its dividend policy at the earliest opportunity once a clearer pattern of trading has emerged during the first half of 2021.

The support of shareholders, alongside that received from other stakeholders, has been important in allowing the business to negotiate the challenges posed by COVID during 2020 and the Board is grateful for this contribution.

Business

2020 has required Churchill to operate with a high degree of flexibility. To deliver a sound performance when our markets and operating environment were subject to regular and substantial change reflects the inherent strengths and foundations of the business established over many years.

Our initial aim, once the effect of COVID had been assessed and safe working practices established, has been to continue to service our customers, to maintain a base level of activity and employment and to secure our operational and financial position. In addition to this we were determined to continue to make progress against our strategic objectives whilst our markets were less active. We have continued to develop our export distribution and have made further progress in extending our range of added value products and technical differentiation.

The resilience and breadth of the Hospitality market and our position within it has been demonstrated through several periods of restriction. Despite severe limitations the market has continued to provide opportunities either in different sectors or geographies and our market position and operational agility have allowed us to continue to meet this demand. It will remain an attractive market in the longer term.

Ceramics

Hospitality sales in January and February 2020 were 33% ahead of the comparable period in 2019 as our market and product development initiatives, coupled with the benefits of the Dudson acquisition, delivered a high level of growth. The remainder of the year has seen a much more mixed picture with a substantial fall and subsequent mid-year recovery finally being followed by extensive restrictions across our markets in the final quarter. Across the year as a whole, Hospitality sales were 51% of 2019's levels with the important Spring and Christmas trading periods particularly affected by restrictions.

In relative terms Hospitality Export revenues performed well, indicating continued progress in the development of our markets and increased market share. Europe has continued to be the focus of our short term plans and we believe we have made further gains in our major markets. We have largely maintained our sales and marketing resource in this area and have also improved and extended our distribution in key markets over the year. We hope to recover strongly once markets begin to return to normal and to leverage our ability to offer a market-leading service level from our European distribution centre. The USA has also performed well despite considerable turmoil from both COVID and political events.

UK sales have performed creditably although as market leader we have inevitably been affected proportionately by lower market activity. The UK is now showing some signs of recovery with higher activity within national accounts and certain sub-sectors of the market. We continue to benefit from wide distribution across a range of sectors and have a long established presence in what is a replacement orientated market.

We have continued to increase the proportion of added value product within our revenue and to introduce new product throughout 2020 and into 2021, reflecting continued market demand for innovation. New launches have extended our Stonecast and Studio Prints ranges and particular focus has been given to increasing the depth of our Dudson product range. The higher degree of entrenchment of added value product within our customer base has helped to protect our repeat sales during an otherwise challenging period. Added value product now represents over 55% of our reduced Hospitality revenue.

Our Retail business has performed well during the year and revenues were ahead of our initial expectations. We have largely completed our withdrawal from sourced product but have retained the ability to service customers with UK made product. This has helped to support our manufacturing efficiency during the year.

Churchill's core values continue to be innovation, technical performance and service and we have improved our capability in these areas over the year. We believe that our long established reputation and relationship with end users, distributors and agents worldwide will continue to be of great value to the business.

Materials

Furlong Mills has performed well during the year despite the effects of COVID-19. The majority of Furlong's volume is supplied to customers trading with Hospitality markets where the impact of the pandemic has been highest. Furlong has continued to develop its material science base and has begun to deliver improved solutions both to support Churchill and the UK ceramics industry as a whole.

Operations

The operation of a large manufacturing unit during the uncertainties of COVID has provided many challenges during the year, particularly in relation to changes in output levels. Our performance reflects our long term investment in improving the flexibility of our manufacturing processes and in developing the capability of our staff. We have maintained a reasonable level of efficiency at reduced output levels and this has required significant efforts from our operational team. This has been achieved alongside operating in a safe and secure working environment. We have well established manufacturing operation which provides a sound base to enable us to operate effectively as our business position evolves and grows.

We have continued to invest in the development of our operations, completing projects underway at the end of the first quarter of 2020

and prioritising additional investments that will improve efficiency and flexibility rather than those that add capacity. We have completed two small extensions to our main UK site and have commenced a third. The installation of a more fuel efficient kiln specifically to build capability to make added value product was completed later in the year. These investments will support the achievement of our strategic aims over the longer term.

This energy efficient kiln is one part of our integrated plan to improve the sustainability of our operations. We make a highly durable product which is re-usable many thousands of times, which outperforms alternatives and requires low levels of replacement. However, we recognise that we use significant amounts of energy and that we must address this as a strategic priority. We have developed a number of actions over several years, including the reduction of levels of waste product and capital investment, both to generate green energy and to recover waste heat. We will continue to support initiatives in this area.

We welcome the signature of the Trade and Cooperation Agreement which has clarified the trading relationship between the UK and EU. Our contingency planning for Brexit was successful and we have continued to benefit from the investments made, notably the establishment of our logistics operation in Rotterdam, which will support our ongoing development of European markets.

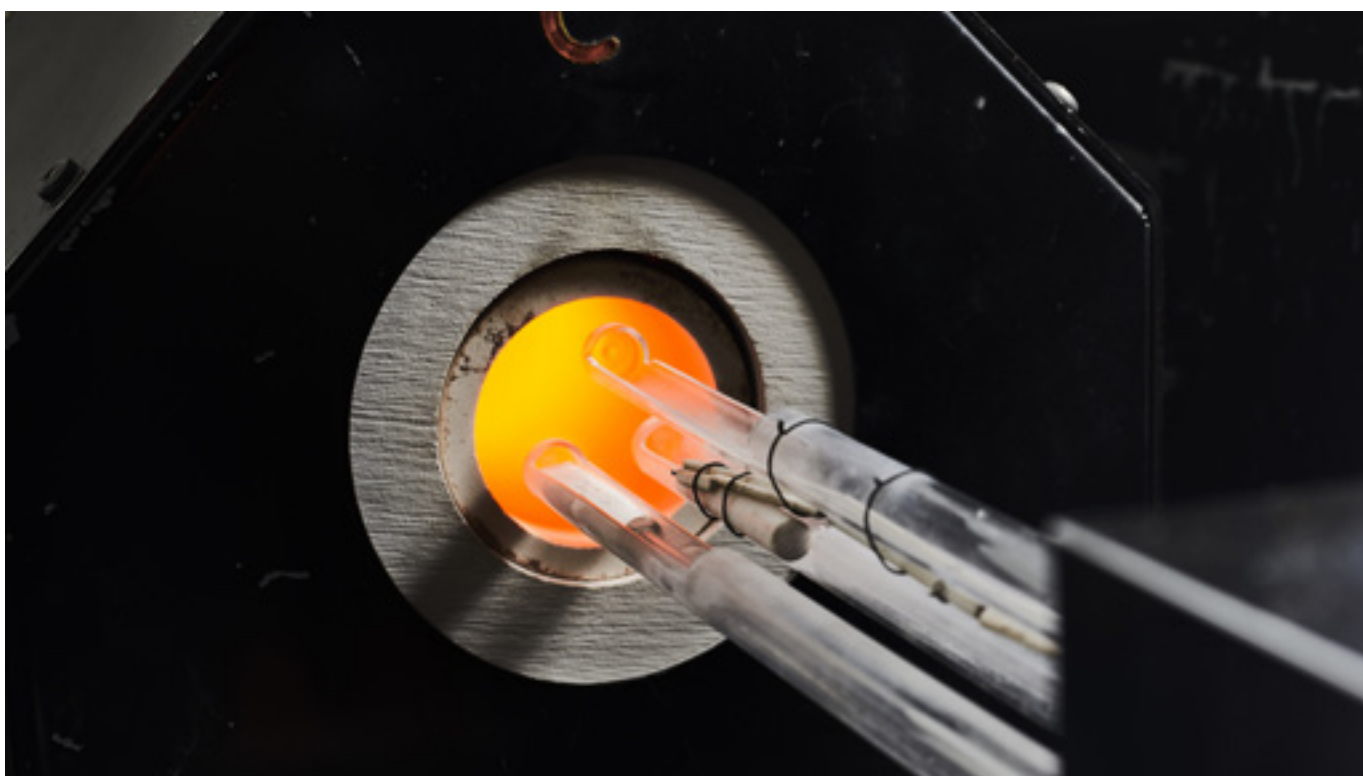


Chairman's Statement

People

Our employees have continued to provide outstanding service to the business, demonstrating an admirable level of adaptability in addressing the formidable challenges and regular changes that have characterised the business environment across the last year. Their skills, commitment to the business and their colleagues has proven to be invaluable. We believe that it is this culture that continues to allow us to perform creditably in the face of adversity.

We have prioritised the importance of safety over the last year and will continue to take appropriate steps to maintain a safe working environment. Our Continuous Improvement programme has also proved important in allowing our staff to address the challenges raised by the pandemic effectively.



**"Our performance reflects
our long term investment in
improving the flexibility of our
manufacturing processes."**



Chairman's Statement

Outlook

Our response to COVID-19 during 2020 was characterised by three main themes; to secure our operations; to protect our strong financial position and to ensure our actions were not inconsistent with our long term plans. As such we re-started operations as early as possible and continued to offer our customers a high level of service throughout the year. We have refined our strategic plans and continued to invest in the development of our business. We believe that we are well positioned to respond to the forthcoming re-opening of our markets and have an improved competitive position supported by a sound operational and financial base.

Despite the level of government restrictions on worldwide hospitality markets in the fourth quarter of 2020 and the first quarter of 2021, there is now growing evidence from enquiries, order levels and sales that activity levels are recovering across our markets.

Churchill is a long established resilient business with strong foundations. Whilst we recognise that there may be further volatility and effects from COVID-19 we believe that we are well placed to build momentum in our trading performance throughout the rest of the year. The progress demonstrated in the first weeks of 2020, where our Hospitality revenues were significantly ahead of the same period in 2019, sets the performance benchmark that our strategy can deliver. Our task now is to return the business to those levels.

Alan McWalter
Chairman
19 April 2021





"We believe we are well placed to build momentum in our trading performance throughout the rest of the year."

Strategic Report

The Directors present their Strategic Report for the Group for the year ended 31 December 2020.

A review of the operations of the Group during the year and its future prospects are given in the Chairman's Statement on page 6 and in the following pages.

Business purpose

Churchill's business purpose is to provide ceramic tableware, principally to hospitality markets on a long term and sustainable basis. Within this purpose we aim to deliver value to all our stakeholders through the supply of high quality performance products, beneficial partnerships and secure employment.

Values

We have a long established business and have developed a core set of values over time. Churchill aims to deliver outstanding performance in terms of product innovation, quality and service anticipating and responding to market requirements. We aim to build strong relationships with our stakeholders and operate in a systematic, trustworthy and professional manner.

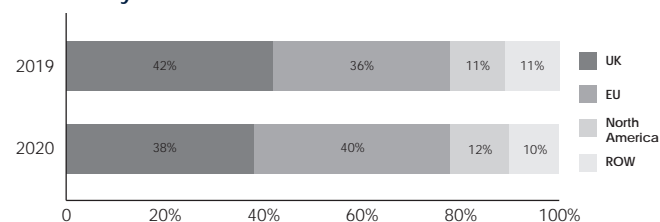
Culture

Churchill has developed a business culture emphasising continuous improvement, a high level of service to customers and strong relationships with all our stakeholders. This culture has formed an important part of the Company's long term success and development. Our culture is led by the Board, but is driven by our employees. Whilst the Board has established standards, policies and procedures to frame our culture we see its development and implementation as a product of regular communication between all our employees and other stakeholders. Our continuous improvement programme 'Masterclass' has been an important part of this process. We believe we have an open and sharing culture with a strong level of engagement with our stakeholders.

Principal activities and business environment

The Group serves customers in many different geographic areas around the world, supplying a range of tabletop products, principally ceramic tableware. The majority of our revenues are generated from production from our UK manufacturing plant, supplemented by products sourced from third party suppliers. Approximately sixty per cent of our revenues are earned from export markets although we have a substantial business in the UK. Our principal exports are to Europe and North America.

Revenue by Market



Hospitality markets are generally recognised as being long term markets linked to economic growth and increased levels of leisure spending by consumers. Our product is a high quality, engineered ceramic designed to meet exacting design, performance and technical standards within the hospitality industry. It is generally sold to end users through well developed distribution networks with a high service level requirement. A significant proportion of sales each year will be repeat or replacement sales to existing customers.

Given our exposure to hospitality markets across the world, there has been a substantial reduction in demand across most of 2020 as the effects of COVID-19 and related market restrictions have been felt. We believe that we have maintained our share of these markets.

The effect of the pandemic has continued into 2021 and we expect that hospitality market sizes will continue to be adversely affected, albeit at reducing levels, in the first months of the year. The rate of recovery of market demand in the UK, Europe and other export markets will be affected by levels of the virus, government restrictions and the success of the vaccination programme. The business has maintained a flexible approach to manage the short term impact of this reduced demand whilst continuing to implement initiatives moving our longer term strategy forward.

We have continued a high level of product innovation, market development and investment in our manufacturing operations.

Promoting the success of the Company

It is the duty of the Directors under s172 of the Companies Act 2006 to promote the long term success of the Company to the benefit of members as a whole and acting fairly with regard for the interests of other stakeholders in the business.

Other stakeholders include employees, customers, suppliers, our pension fund members, our local and the wider community, government and other regulatory bodies.

Churchill has been in existence since 1795 and always taken a long term approach to business, particularly in relation to investment and in understanding the opportunities open to us and the risks to which we are exposed. To operate a successful and sustainable business model it is necessary to ensure that all the contributors to the success of the business understand their place within it and feel that the Company operates ethically and fairly in its dealings with them.

The Board has regard to the interests of all stakeholders in its discussions and reaches balanced decisions with the sustainability of the business uppermost in its considerations. Churchill maintains a financial model that is aligned with this objective such that capital allocation decisions, where possible, do not unfairly prioritise the interests of one group of stakeholders over others. The Board is aware of the need to support regular revenue and capital investment in the development of our business and we orientate our operations accordingly.

We aim to deliver well designed, performance products and outstanding service at appropriate prices levels to our customers. At the same time we acknowledge that to meet these levels of customer service we are reliant upon good relationships with a well motivated workforce and fair and balanced relationships with a range of suppliers. We understand that we have a responsibility to pay appropriate levels of taxation and to support the future pensions of our scheme members. We consider our dividend policy carefully in the light of the overall needs of the business and the interests of other stakeholders. Our policy is formulated to ensure that dividend payments are not excessive in relation to profits and do not introduce excessive levels of risk in relation to the sustainability of the business.

Churchill aims to manage its effect on our local community and the environment. We have engaged with the community on an ongoing basis through charitable and educational support. The business operates several initiatives aimed at minimising our waste products, recycling waste where possible and in the reduction of our energy usage and carbon footprint. We have made several investments and process changes to reduce our use of energy. Further information in these areas may be found later in the Directors' Report.

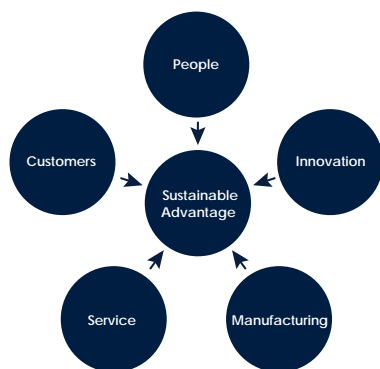
The business has regular contact with our workforce through both formal and informal mechanisms. The scale of our business and our open culture allows the Board and management to engage with our employees on a day to day basis and employees are encouraged to raise issues. We have a recognised trade union representing the majority of our weekly paid employees and we meet regularly with their representatives. However we believe that other initiatives, including on site briefings, communication boards, regular news updates and the Masterclass process provide the most important means of engaging with our workforce. We believe that our workforce is engaged and motivated and that this is reflected in our staff retention performance. Again further information in relation to this area may be found in the Directors' Report.

We meet with suppliers on a regular basis to provide information in relation to our forward plans and review performance. As in other elements of our business we enjoy long standing relationships with the majority of our suppliers. On average we pay suppliers within 40 days (2019: 39 days) of invoice. We believe our suppliers regard Churchill as a good customer.

The Board consults regularly with shareholders through formal meetings, company visits and informal discussions. Voting on Annual General Meeting resolutions is largely positive with over 99% of votes cast being in favour of the resolutions put to the meeting. The Board reviews voting carefully prior to each Annual General Meeting.

Resources and relationships

Our key resources remain our employees and customers, our technical and business skills, our long heritage of manufacturing and willingness to embrace new methods to deliver an outstanding service.



One of the key elements of our sustainable market advantage is the success of our innovation process. We have developed this process to research and identify market trends and design new products to satisfy these trends.

Churchill, along with other UK manufacturers, has a significant technical advantage in the nature of the product we offer to our markets. Our product offers significant benefits in terms of durability and overall lifetime cost to users. This technical advantage has been developed over many years and we hold significant intellectual property in our materials and processes.

The Group operates from two sites in Stoke on Trent, England, a leading centre for ceramic excellence worldwide. This gives us access to key suppliers, technical support and experienced staff. Our main manufacturing plant and logistics facilities have benefitted from significant and regular long term investment to improve our business's efficiency and effectiveness. We also operate from a number of smaller locations and representative offices around the world.

Our employees also give us significant advantage. We believe we recruit, retain and develop high quality individuals at all levels within the business who contribute towards the success and growth of the Company and maintain our core values. We have maintained our investment in training and development to provide more fulfilling roles for our staff and improve the effectiveness and productivity of our workforce.

We have long standing relationships with our customers. Whilst many of these are not contractual we continue to supply the same customers year after year with products that meet their requirements. Our customers value our technical ability, our service and our commitment to high quality design and innovation.

Churchill has long enjoyed a market leading reputation for service. Our operational plans are geared towards meeting high levels of on time delivery both in the UK and overseas. We hold extensive inventories to meet these service requirements and have emphasised flexibility and responsiveness within our manufacturing process.

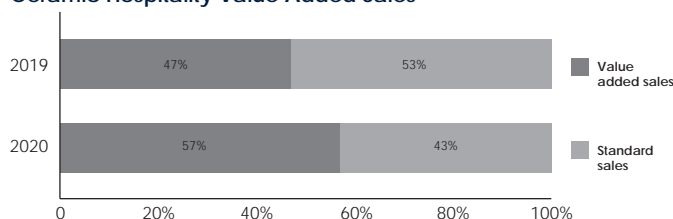
Strategy

The Group's objective is to generate long term benefits to all stakeholders in the business by the provision of value to customers through excellence in design, quality and service. We aim to increase value we provide to our stakeholders through steady increments to sales and margins, through alignment of our cost base with profit opportunities and a focus on cash generation.

Our long term aim is to build our presence in markets offering sustainable levels of revenue and profitability. For several years this has led us towards development of our position in hospitality markets worldwide.

Innovation remains important to support our ambition to develop our business. We have invested significant resource in new staff and flexible technology to increase our capability in this area. It is a key strategic aim to design products that meet our end users' requirements in terms of performance, shape and surface design. Our target markets require products that are aesthetically appealing whilst also performing to appropriate customer and technical standards.

Ceramic Hospitality Value Added Sales



We understand that quality must exist throughout our business process. Quality is reflected not only in the appearance of our product but in its design, its technical performance and in the systems which support the

fulfilment of our contract with our customers. We invest to maintain the performance of our products and to extend our capabilities.

Customer service remains a major part of our strategy and the fulfilment of customer expectations is critical to the maintenance of good relationships. Our production and logistics facilities have been designed to balance efficiency and flexibility within manufacturing to ensure that we can respond quickly to unexpected demand levels and to meet ambitious on time, in full, delivery targets. We invest regularly in these facilities to maintain a market leading position in customer service.

Business model

Our business model is designed to allow us to identify markets where we may profitably grow our revenues on a long term basis. We research customer product requirements and distribution structures in new markets and, if they offer profit opportunities, invest to generate revenue, margin and ultimately a return for the business and our stakeholders.

We continue to expect short to medium term growth to be weighted towards export markets and particularly Europe, where we have a developing distribution structure.

Our target remains to deliver progressive increases in the proportion of added value products within our business. We invest steadily in increasing our production capability and in improving our ability to offer added value to our customers. This involves investment in new product development as well as capital expenditure on productive capacity. We expect to continue to invest for the long term in our UK manufacturing facilities.

As our business develops we need different skills and a core part of our model is to train, develop and recruit staff to meet these requirements.

Performance

A more detailed report on our performance is contained in the Chairman's Statement on page 6.

While the year has undoubtedly been one of the more difficult ones experienced for many years due to the substantial effect of COVID-19 on the Company's markets. The business has responded well. We have continued to deliver an outstanding service to our customers and have maintained a safe working environment. Whilst our financial performance has reduced, we have reported a profit and maintained a robust balance sheet including good liquidity levels whilst continuing to invest in our business capability. Our operational position remains strong and has benefitted from further development over the year. We have made further progress against our longer terms goals. Continued differentiation within our product range, technical innovation and further extension of our distribution network should bring future benefits in relation to our overall market position once markets begin to recover.

We expect that the popularity of dining out as a leisure activity will recover and that continued investment by hospitality providers such as pubs, restaurants and hotels will remain a major driver of demand for our products. Despite lower revenues we have seen continued evidence of an improved competitive position in Europe, where we have a relatively small but growing market share. COVID-19 will undoubtedly continue to impact levels of dining out in the short term, but we anticipate that it will continue to remain popular over a longer time horizon.

Whilst overall cash and deposit balances have fallen over the year we continue to enjoy a strong cash position. We have controlled working capital well and have continued to invest in capital projects supporting our long term business plan. This liquidity provides reassurance in the short term and facilitates medium and long term development.

Acquisitions

The core of our strategy is based around steady growth in our target business areas. We do not normally use acquisition as a means of achieving this. However, where we have opportunities to accelerate our organic growth at an acceptable cost we will evaluate acquisition.

No acquisitions have been made in 2020.

The acquisitions made in 2019, although affected by the impact of COVID-19, have both performed satisfactorily.

Energy and Carbon Reporting

For the first time we are required to report on our use of energy and emissions of greenhouse gases. This information will form a baseline for our future performance and improvement.

As a business we have recognised the effect of our operations on the environment and the importance of managing and reducing this impact. We understand that we use significant amounts of energy as it is central to the manufacture of our product. However we are also clear that we make ceramic tableware that is robust and may be safely re-used many thousands of times. Further details in relation to other aspects of our environmental performance may be found later in the Annual Report.

We are committed to year on year improvements in our operational energy intensity.

We have a dedicated process aimed at reducing our use of energy. This process has several points of focus.

- To reduce waste: By improving the proportion of good product made in our factory we reduce both overall energy usage and the amount of waste disposed off site. We have had a number of initiatives in place in this area for many years and continue to focus on it.
- Innovation: We have many projects underway to improve our processes and several of these target lower energy usage within manufacturing. These projects utilise the technical skills and knowledge acquired with our purchase of Furlong Mills in 2019 alongside those in our own Technical operations. New product development also emphasises ease of manufacture.
- Improving our energy efficiency: We have and continue to invest in upgrading our equipment and processes to operate more efficiently. We have completed an investment in a new kiln which is 10% more energy efficient than its current equivalent. We intend to continue to invest with energy efficiency in mind. At a lower level, we have made significant progress on a project to install low energy LED lighting.
- Recovering waste heat: We believe that we may reduce our overall energy consumption by recovering waste heat more effectively within our processes. Projects are underway to investigate this route.
- Generating renewable energy: In 2019 we commissioned a small scale energy generation project using solar panels. We are pleased with the outfall of this investment and it will now be extended. We are investigating other possible routes to generate greener energy.

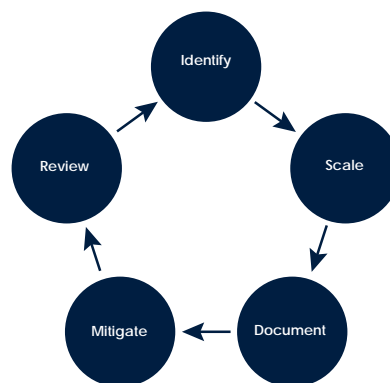
The following information is produced in accordance with the Streamlined Energy and Carbon Reporting requirements.

	2020
Tonnes of CO ₂	
Scope 1 – Direct emissions (UK facilities and vehicles)	6,546
Scope 2 – Indirect emissions (UK purchased gas and electricity)	1,616
Energy exported	(15)
Total Scope 1 and 2 emissions	8,147
Intensity metric: Scope 1 and 2 per metric tonne of raw material input	0.43
Total UK energy consumption (mWh)	50,566

The above information represents a benchmark for our future performance. 2020 is not the most representative year to set a benchmark given the impact of COVID-19 on our operations and the above metrics also do not easily deal with the effect of overseas production (Scope 3) or the significant re-usability of our product compared with that from other sources. However it remains our target to progressively improve against our own past performance.

Principal risks and uncertainties

The Group's operations are subject to a number of risks, which are formally reviewed by the Board in a regular and systematic manner. The risks are identified and assessed on the basis of the likelihood of occurrence and the severity of the impact on the Group's business model and strategy. The Group then implement processes and controls to appropriately manage and mitigate these risks. The principal business risks currently affecting the Group are set out below:



Risk	Risk Change	Risk Description
Market and Business Environment Change (This section excludes the effect of COVID -19. See below)	=	<p>The Group operates in dynamic markets where there have been significant recent changes to economic and trading conditions, distribution channels within each market and product requirements in these markets. The Group actively manages its market exposure and profitability, but risks losing revenue if we do not anticipate and respond to market trends and risks.</p> <p>The risk inherent in each market is offset by regular review of market conditions and forecasts, the relatively broad spread of our operations in geographic terms and by a widening portfolio of products to serve different segments of these markets. We are actively developing new geographic markets and introducing new product ranges. As we enter new markets this introduces new risks to the Group although it does also diversify our overall market exposure and reliance on existing products.</p>
Brexit	↓	<p>Although the immediate effect of Brexit at the end of 2020 has now become clear, its longer term impact is not yet fully certain in respect of its impact on future trading conditions including the rate of economic growth in the UK market and exchange rates.</p> <p>The Trade and Cooperation Agreement between the UK and European Union has reduced many of the short term risks associated with Brexit. The potential for increased tariff levels have been removed although some more minor effects continue in relation to changes in trading relationships.</p> <p>In the long term, it is believed that the Group's strategies of developing revenues outside of the UK and in building sales of differentiated hospitality product where there is a higher level of repeat business would act to mitigate the impact of any adverse changes.</p> <p>A number of contingency plans implemented prior to Brexit have proved to be successful including the establishment of a logistics facility in the Netherlands and improved systems and processes in our export operations.</p>
COVID-19	=	<p>COVID-19 continues to be a major risk for the business. There is now an improved understanding of the virus and vaccination programmes have been developed and implemented in most of the countries that we operate in. However the potential for virus mutation and further government restrictions on the hospitality sector in a number of our markets means that it remains an important area of risk assessment and mitigation in our business planning and may continue to impact performance at material levels. The virus may also disrupt our manufacturing operations and supply chain.</p> <p>As yet it has not been possible to scale the full extent to which the Group's business will be affected or the period over which this impact will be felt although its impact on the business's 2020 performance is shown in this Annual Report.</p> <p>The business has developed contingency plans to respond to further effects of COVID-19. It's impact on the business is assessed on a regular basis using our risk analysis processes.</p> <p>A number of possible future scenarios have been reviewed and contingency plans developed. These actions emphasise the maintenance of the safety of our employees and the management of resources, cost and working capital levels.</p> <p>The Group continues to hold significant liquid cash balances and a number of assets that may be used to raise additional finance if required. This should support the resilience of the Group.</p>

Risk	Risk Change	Risk Description
Currency Exposure	=	<p>The Group's position as a worldwide provider of ceramic and related products means that our profitability will be subject to currency fluctuations related to export revenues and the costs of operation denominated in overseas currencies. Our non sterling receipts are principally denominated in Euros and US dollars. Against US dollar receipts we have a partial natural offset due to our overseas purchasing. We normally expect to have more significant net Euro receipts.</p> <p>We review and control our transactional foreign currency exposure regularly and take appropriate action to manage net exposures largely using simple option forward contracts. We also review currency rate changes as part of our pricing policy.</p>
Manufacturing and Supply Chain	↑	<p>Over 85% of our sales revenues are of products manufactured in our UK facility. Whilst this provides a high quality and effective source of products it exposes us to risk in the case of the potential loss of availability of part or all of our factory for an extended period. This risk is controlled through our risk review process, management procedures, appropriate investment and ultimately insurance arrangements.</p> <p>We have augmented our UK production facilities with a range of third party suppliers. The use of these suppliers exposes us to risks in relation to interruption to supply and changes in cost structures arising from economic or regulatory change. We manage this risk by diversifying our sources.</p> <p>As a major user of energy within our production process we have an exposure to changes in availability and price of gas and electricity. Progressive legislation in relation to energy usage and carbon footprint reduction may also affect our operations.</p> <p>We have developed a forward energy strategy to reduce our overall carbon intensity in the medium term. We seek to control and mitigate this risk through management of our overall energy consumption, small scale investment in sustainable energy generation and energy recovery systems.</p> <p>We also assess the impact of new technologies in our manufacturing process. Where new developments have the potential to impact on either our commercial position or cost competitiveness we develop appropriate plans to respond to these changes.</p>
People	=	<p>Our business depends upon the skills and knowledge of a number of people at all levels within our operation and within supplier companies. Certain of these skills and experience may only be acquired through extensive training and experience and it is possible that they may not be available through the recruitment of new employees in the future. We aim to limit this risk through the establishment of appropriate manpower and succession planning, identifying training, development and recruitment needs.</p> <p>As a substantial employer and manufacturer we need to comply with extensive health and safety requirements. We limit the risks associated with Health and Safety through the application of appropriate systems, regular review at Board, management and operational levels, training and investment in risk mitigation.</p>
Cyber Security	=	<p>Our business increasingly uses information technology to manage our operations and deliver value. We aim to take appropriate steps to secure our systems from failure or malicious action.</p>
Regulation, Compliance and Taxation	=	<p>Our operations are subject to regulation by many government and non government organisations. The Group aims to manage conformance to these regulations such that it is able to continue to operate and meet appropriate standards.</p> <p>As the majority of our products are used in the consumption of food, we are exposed to risk in relation to our products meeting accepted safety standards within the markets we serve. Each major geographic market applies different standards and legal penalties may be considerable for non compliance. New and more stringent standards may be introduced.</p> <p>We manage these risks principally through the monitoring of applicable standards, the testing of our products to ensure they meet these standards and sale in accordance with local regulations. We also, where practical, maintain appropriate external insurance.</p> <p>The markets in which the Group operates are generally subject to various taxes, tariffs and duties levied by national and pan-national governments. These taxes, tariffs and duties and particularly changes in them may affect the Group's operations and competitive position both positively and negatively.</p>



Key performance indicators

Revenue and revenue growth

The absolute levels of revenue and revenue growth are reviewed regularly by business and geographic destination through the year against comparative, target and strategic expectations.

	2020 £m	2019 £m	Growth %
Revenue			
Group	36.4	67.5	-46%
Ceramics	33.1	62.7	-47%
Materials	3.3	4.8	-32%
UK	13.9	28.4	-51%
Export	22.5	39.1	-42%

Sales to both Ceramics and Materials customers fell as a result of the impact of COVID-19 and related government restrictions on hospitality markets worldwide.

Group export sales fell by 42%, again as a result of the pandemic. Our wide spread of markets provided some support to the retention of sales revenues and European revenues were supported by an underlying continuation of market share growth.

Operating profit and Profit before exceptional items and income tax

The level of operating profit and significant factors affecting its delivery are reviewed and controlled on a regular basis.

	2020 £m	2019 £m	Growth %
Operating profit before exceptional items	0.9	11.2	-92%
Operating margin	2.5%	16.7%	
Profit before exceptional items and income tax	0.9	11.2	-93%
Exceptional items	(0.8)	0.1	
Profit before income tax	0.1	11.3	-99%

Group operating profit before exceptional items fell by 92%. Sales revenues were significantly affected by COVID-19, falling by 46%. Absolute levels of gross margin were also affected by the level of operational gearing within the business and the Board's decision to maintain business capacity in the medium term. Cost levels were managed where appropriate again reflecting the Company's desire to maintain its ability to recover quickly once Hospitality markets re-open. Operating margins before exceptional items remained at satisfactory levels taking into account the effect of the pandemic and fell to 2.5%.

The level of profit before exceptional items and income tax is reviewed on a monthly basis against previous performance and target levels.

Profit before exceptional items and income tax fell by 93%, reflecting the substantial fall in revenue as a result of the impact of COVID-19 on sales to the hospitality sector.

Exceptional items, where they are recognised, are reviewed as part of the regular assessment of profit performance.

Exceptional cost: Business restructuring cost reflecting impact of COVID-19 during the year £0.8m. (2019: Exceptional credit: Negative goodwill on the acquisition of Furlong Mills Ltd £0.1m).

Operating cash generation

The Group believes that over an extended time period it is important to generate cash at an operating level at least equivalent to declared operating profit. This measure identifies the effectiveness of our control over working capital demands and ensures that cash is available for further investment in the business, to meet taxation payments and to ensure that our shareholders receive an appropriate return.

	2020	2019	Growth %
Operating cash generation	£1.8m	£11.3m	-84%
Percentage of operating profit	196%	101%	
Percentage of operating profit (3 year average)	100%	97%	

Operating cash generation reduced as the scale of the business reduced, but remained at satisfactory levels overall. Operating cash flows were disrupted against normal expectations as a result of the impact of COVID-19. The fall in operating profit was offset by a reduction in working capital requirement as overall levels of business fell. Employer contribution payments in respect of pension deficit amortisation continued at a level of £0.7m per annum.

Customer service and inventory

Customer service and inventory holding levels are reviewed on a regular basis as part of the operational management of the Group's business. The main aim of this measure is to ensure that the Group's strong reputation for on time order fulfilment is maintained, consistent with the efficient operation of production and sourcing activities and the optimisation of working capital.

	2020 £m	2019 £m
Inventory	12.8	11.6

The rise in inventory holding levels reflects increased holdings of Ceramic stocks as a result of the balancing of efficient production with reduced sales demand. Stock holding levels also increased in our European warehouse to mitigate risks associated with the Brexit process.

Future outlook

The future outlook for the business is dependent on a number of factors that are currently unclear in the short term, but the Board is confident that it will be able to grow and recover its business and market position over the medium to long term.

The outlook for the business is clearly dependent on the recovery of hospitality markets once the immediate effects of COVID-19 reduce and related government restrictions on hospitality businesses are relaxed. The timing and extent of this recovery is not yet certain. Successful progress on vaccination programmes will also be important to the future performance of the business.

The UK Government has announced the progressive relaxation of restrictions on hospitality commencing on 12 April 2021 with a wider re-opening planned for 17 May 2021. Restrictions in our main northern hemisphere export markets are following similar timetables. The UK Government has indicated that it expects there to be no further lockdowns although this cannot be certain. It is possible that COVID-19 will continue to affect demand, but we believe our strong competitive position will continue to allow us to progress.

The Board believes that longer term hospitality markets will recover and that the increasingly strong position we hold in a number of these markets will mean that we will continue to be able to improve our overall business performance. We expect to benefit from continued investment in new product development for hospitality products and from increases in capacity. Over the last twelve months the Company has continued to invest in developing its business in accordance with the core strategic aims of growing our export distribution and building a differentiated, high performance, product range. The Group's financial position allows us to invest for the long term and reduces the risk to the business from sudden changes in market conditions.

We will continue to support long term, investment led, development for all our markets.

On behalf of the Board

D J S Taylor
Company Secretary
19 April 2021



Directors' Report

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

The Company is a public limited company listed on the Alternative Investment Market (AIM) and is incorporated and domiciled in the UK. The registered office is disclosed at the front of the Annual Report and the Company number is 02709505.

The consolidated income statement for the year is set out on page 38.

A review of the operations and future prospects of the Group is given in the Chairman's Statement on page 6 and in the Strategic Report on page 14.

The principal activity of the Group is the manufacture and sale of ceramic and related products for hospitality and household markets around the world.

Dividends

The Directors have paid the following dividends in respect of the years ended 31 December 2020 and 31 December 2019:

	2020 £'000	2019 £'000
Ordinary dividend:		
Final dividend 2019 nil (2018: 20.3p) per 10p ordinary share	-	2,224
Interim dividend 2020 nil (2019: 10.3p) per 10p ordinary share	-	1,132
	-	3,356

The Directors now recommend payment of the following dividend:

Ordinary dividend:

Final dividend 2020 nil (2019: nil) per 10p ordinary share	-	-
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Dividends on treasury shares held by the Company are waived.

The Company recognises that dividend income is important to shareholders and aims to pay a sustainable and progressive dividend linked to the medium and long term performance of the business, consistent with the maintenance of appropriate levels of dividend cover and allowing the Company to meet other demands on its cash generation.

Given the present uncertainty regarding the impact of COVID-19 on the general business environment and the Company's operations, the Directors have resolved not to propose a final dividend for 2020. The Directors will review the Company's forward dividend policy at the earliest opportunity once a clearer pattern of trading has emerged during the first half of 2021.

Directors

The Directors of the Company who have served during the year and up to the date of signing of the financial statements are as follows:

A J McWalter* (Chairman)
D M O'Connor
D J S Taylor
J A Roper
A D Roper* (retired 14 August 2020)
B M Hynes *
A C Bromfield*

* Non Executive

The Directors retiring by rotation are J A Roper and B M Hynes who being eligible, offer themselves for re-election. The unexpired terms of the service contract of J A Roper is 12 months and that of B M Hynes 5 months.

The biographical details of the Directors are as follows:

David O'Connor, Chief Executive Officer has worked for Churchill for 30 years in a number of production, operations, marketing and senior management roles. He has extensive experience within the

ceramics industry and joined the Board in 1999. He has an MBA and is an alumnus of the Harvard Business School Advanced Management Program. David has worked in a number of roles within the UK ceramics industry, initially within production management and has developed an extensive knowledge of logistics, product sourcing and marketing. He was appointed Chief Executive Officer in August 2014, having previously served as Chief Operating Officer since 2010. He has responsibility for the development of Group strategy and for operational performance.

David Taylor, Finance Director and Company Secretary has worked for the Group for 29 years. He was appointed to the Board in 1993. Following qualification as a Chartered Accountant with KPMG, he worked in a number of finance roles in the manufacturing sector before joining Churchill in 1992. Since joining Churchill, David has developed wide experience across the business.

James Roper, Sales and Marketing Director joined Churchill in 2001. James has worked in a number of sales and marketing roles across Churchill's business and has extensive experience in the development of the Group's strategy particularly in relation to product innovation and distribution channel management. He has an MBA from Manchester Business School. He was appointed to the Board in 2015.

Alan McWalter, Non Executive Chairman joined the Group in January 2011. He is also Chairman of Newmarket Travel. He has previously held Chairmanship and Non Executive roles with numerous quoted and private companies. He was an Executive Director of Marks and Spencer and Kingfisher Group companies and held high level marketing and general management appointments in the Consumer Goods and Retail sectors.

Brendan Hynes, Non Executive Director and Senior Independent Director. He was Chief Executive Officer of Nichols plc from 2007 to 2013 having previously been Finance Director and Chairman of Brand Architekts plc from 2013 to 2020. He has extensive experience of strategy development, business and financial management in public companies. Brendan is a Fellow of the Chartered Institute of Management Accountants and has an MBA from Manchester Business School. He joined the Board in 2013.

Angela Bromfield, Non Executive Director, is currently a Non Executive director at Harworth Group plc and Marshalls plc where she is Chair of the Remuneration Committee. She has had a broad based international career in manufacturing, distribution and construction held a number of senior roles in listed companies including Morgan Sindall plc. Angela has a degree in Chemistry from Reading University and an MBA from Warwick Business School. She joined the Board in 2016.

Taxation

The majority of the Group's operations and the profits derived from them are subject to taxation in the United Kingdom

Ethical standards and trading

The Group expect high ethical standards to be met in all areas of its operation and from all its employees and recognises the role of the Board in defining and meeting these standards. We have a published ethical code and supporting policies covering bribery and corruption, modern slavery and whistle-blowing.

Churchill sources materials and products from a range of national and international suppliers. We have an ethical trading policy and take steps, including factory visits and audits, to ensure that our standards are implemented within our supply chain and that local legislation and regulations are complied with.

Employees

The Company recognise that well trained, engaged and motivated employees are central to the current and future success of our business. We involve our workforce through open communication including briefings and communication boards to encourage engagement with the strategy and goals of the business. The financial performance and forward plans of the business are shared on a bi annual basis. We work closely with the union representing our employee's interest to develop a relationship that will benefit our employees and meet our business needs.

We have recognised the additional demands placed on our colleagues through the COVID-19 pandemic and have instituted additional communication and briefing programmes. The decision to reduce our manpower numbers during 2020 to reflect the impact of COVID-19 on demand levels was a difficult one taken with substantial consideration by the Board. We believe it was in the best long term interests of our employees as a whole.

Our employee training and development programme is an important part of our operations and we have further invested in reviewing and identifying development needs and opportunities. We have

continued to work with our local further educational colleges and training organisations to provide functional and vocational training for employees and our manufacturing based apprenticeship scheme targets the development of important ceramic skills within our team. A number of employees are pursuing external qualifications in various areas. Our long-term commitment to the training and development of all our employees has helped morale, motivation and labour retention.

We remain committed to our graduate training programme helping local graduates into our industry. In the sixteen years since we established this initiative we have recruited many graduates who now hold senior posts within the business and are key to our succession plans for the future. We have established an apprenticeship scheme alongside our graduate programme.

Our Continuous Improvement programme, which has evolved from our initial focus on product quality through Masterclass involves employees at all levels from across our Company, has proved valuable in unlocking the potential of employees within the business. Each employee now has access to training to develop their technical skills and their overall capabilities. This programme also helps to communicate important business issues to our workforce and helps to align their efforts with the overall business strategy.

The Board has clearly considered the interests of employees in relation to key decisions during the year. Important decisions are taken within a framework giving appropriate reference to the long term sustainability of the business, the delivery of steady growth, investment and job security.

We operate a Profit Improvement scheme in which all employees with over one year's service share in a bonus scheme linked to Group profitability. This scheme recognises all our employee's efforts, to encourage performance in line with value creation and allow them to share in the Group's success. There will be no payment from this scheme in relation to 2020, but we expect to reinstitute it in the future.

We remain fully committed to equal opportunities employment policy offering equality in recruitment, training and career development irrespective of gender, ethnic origin, age, marital status, religion, sexual orientation or disability. We actively work with employees who suffer ill-health during their employment with us to rehabilitate them back into the workforce wherever possible.

Health and safety

The health and safety of our employees is central to our operations and we invest significant effort and resource to target continuous improvement. Health and safety is a Board responsibility and receives constant management focus, the Board has access to appropriately trained and skilled assistance to meet its obligations. We have a published health and safety policy.

Our approach to health and safety is embedded in our working practices. We aim to identify and to reduce health and safety risks associated with our operations to the lowest practical levels. Training programmes are regularly offered to update safety skills for all our employees. Considerable progress has been made in the engagement of our workforce in relation to health and safety matters during the year.

The wellbeing of our workforce has never been more important than at present with the impact of COVID-19. We established safe working processes in the early part of the year and invested significant resource both in terms of staff time and financial support to improve safety across our operations. These revised practices are subject to continuous review and improvement.

Environment, social and community

The Group considers and manages the impact of its actions on the environment and wider social and community issues. Churchill is aware that it has many stakeholders, including its customers, employees, suppliers and neighbours alongside our shareholders. We seek to operate over the long term in a sustainable manner which recognises the needs of all of these groups. We assess our economic, social and environmental impact locally, nationally and internationally.

The principal impacts of the Group's operations on the environment are in relation to the energy it consumes and the waste products produced as part of its operations.

Whilst the Company manufactures a product which may be re-used many thousands of times, a significant amount of energy is consumed in its production. As a result of this we have invested steadily to reduce our energy consumption and have replaced older systems and machinery with more modern energy efficient processes. In 2020 we commenced a programme of assessing and investing in small scale energy generation. Additional details are given in our Strategic Report.

We have increased our focus on managing and minimising the production of waste products from our processes during the year and are investing to reduce our impact on the environment. We have instituted a programme of continuous improvement in relation to waste reduction and recycling of waste products.

Where possible we source our materials and services locally. A strong support industry is important to the long term future of the Group. We also take an active role in supporting both the local ceramic industry and wider initiative within the hospitality sector and support a number of training programmes.

Churchill has developed a formal brand framework which highlights the values which we believe embody our business. Many of these values reflect our commitment to our stakeholders. This brand framework is used daily within our business to guide our operations. We understand that we have an impact on our local community and consider the effect of our actions on our local area. Where possible we work to reduce any adverse effects of our operations, consistent with the needs of other stakeholders within our business. We actively engage within our community through contact with our neighbours and local schools and particularly through local charity initiatives. We encourage and support our employees to become involved in community and charitable work. We run a number of events each year in support of charitable causes.

Research and development

The introduction of new and innovative products, designs and process technology remains a cornerstone of our future strategy. The Group's aim is to continue to identify future market trends and then to design and develop products that meet these needs. We have maintained our investment in the development of new products across the year to take advantage of new market opportunities. A significant effort is made to develop our materials and process technologies to allow the introduction of more complex product designs. New product development is controlled through regular meetings and the success of new launches is reviewed in the short term against individual targets and over the longer term as a function of our strategy.

Insurance for Directors

The Group maintains liability insurance for the Directors in respect of their duties as Directors.

Financing

The Group currently utilises equity and retained earnings to finance its operations in relation to short, medium and long term requirements. The Group has historically enjoyed a good record of operating cash generation and forward investment and other cash requirements have been financed from this source.

During the year the Group generated £1.8m of cash flow from operating activities, paid to £0.8m of corporate taxation and invested £2.4m in capital projects. No dividend was paid during the year. Net cash and deposits before lease liabilities at the 31 December 2020 were £14.0m (2019: £15.6m).

The Group reviews and maintains adequate levels of liquidity to meet short term operating commitments as part of its day to day treasury management. Longer term liquidity and cash requirements are reviewed as part of the Group's budgetary and strategic planning processes.

If additional financing is needed in the short term the Group has access to short term variable rate financing arrangements totalling £2.5m on an unsecured basis to provide finance for working capital requirements should they be required. Additionally, forward capital expenditure may be supported using alternative sources of finance including lease purchase.

The Group currently has no net debt and holds substantial levels of unpledged assets including freehold property. These assets form an alternative source of secured medium or long term funding if this is required. Larger long term funding requirements may be met from debt and equity sources if necessary. There are no covenants in place relating to the Group's banking arrangements.

Financial instruments

The Group uses its own cash resources and forward exchange contracts and foreign currency bank accounts to manage its exposure to exchange rate risk caused by trading activities in currencies other than sterling.

The risk management policy adopted is to regularly review forward foreign currency cash flows, identifying the currency effect of completed sale and purchase transactions, transactions which have been contracted for but not completed and an assessment of expected likely forward cash flows. The net currency exposure arising from this review is then managed using forward option contracts. A proportion of net currency exposures are generally covered up to twelve months forward at any point in time. The Group does not trade in financial instruments.

The Group has no material interest rate risk, the only interest rate exposure is in relation to returns on short term cash deposits and borrowings.

Note 1 to the financial statements includes financial management risk considerations.

Going Concern

The Board confirms that, having made enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in the preparation of the financial statements.

The Board has considered several scenarios in relation to the continued impact of COVID-19. This review has included consideration of the impact of different levels of reduction in revenue, different periods of effect, alternative operational responses and cost reduction plans, the high level of cash and deposits held by the Group and additional available financing.

The range of scenarios examined included the analysis of the effect of extended periods with little revenue. These reviews indicate that it is reasonable for the business to expect to continue in operational existence for at least the next twelve months.

Land and buildings

The current value of land and buildings is in the opinion of the Directors in excess of the value included in these financial statements. This has not been quantified because independent valuations have not been undertaken.

Substantial shareholdings

The Directors have been advised of the following individual interests, or group of interests, other than those dealt with in the summary of Directors' interests in the Remuneration Report, held by persons acting together, which at 7 April 2021 exceeded 3% of the Company's issued share capital:

Shareholder	Number of ordinary shares	Percentage
Investec Wealth and Investment	1,259,489	11.4%
S Roper	900,000	8.2%
Invesco	859,462	7.8%
Rathbone Nominees Limited	680,420	6.2%
Cannacord Genuity Wealth Management	675,946	6.1%
Highclere International Investors	398,012	3.6%
E S & S J Roper	387,765	3.5%
A D & P H Roper	350,430	3.2%

Share repurchase

The maximum number of shares held in treasury by the Company during the year was 43,938 10p ordinary shares. During the year the Company repurchased no (2019: no) 10p ordinary shares at a total cost of £nil (2019: £nil) in order to improve overall shareholder return. 36,601 (2019: 30,984) shares were re-issued in respect of employee share option schemes for a total consideration of £4,000 (2019: £3,000). The Company retains a power, subject to the fulfilment of certain conditions and as approved at the 2020 Annual General Meeting, for the further purchase of its own shares.

Political contributions

The Group made no political contributions (2019: £nil) during the year.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

By order of the Board

D J S Taylor
Company Secretary
19 April 2021

Corporate Governance

This statement is not audited.

The Company is quoted on the Alternative Investment Market of the London Stock Exchange and uses the Quoted Companies Alliances 'Corporate Governance' ('the Code') as a benchmark to define and review its governance procedures. The Company complies with the Code.

The Code establishes ten principles of Corporate Governance grouped into three areas; the encouragement to deliver sustainable growth, the responsibility to maintain a dynamic management framework and an aim to build trust with shareholders and other stakeholders.

The Board supports the aims of the Code and seeks to exceed rather than simply meet the requirements it sets out. Many of the requirements of the Code are addressed through this Annual Report and further information may be found on the Investor pages of the Company's website, www.churchill1795.com.

The Board of Directors

The Board is currently composed of three Executive and three Non Executive Directors and meets at least eleven times per year. The Board is led by the Chairman, Alan McWalter. It is felt that the current composition and operation of the Board is suitable to provide the necessary skills and experience to lead and manage the business and to ensure a balance of power and authority. A review of the effectiveness of the Board is carried out on a regular basis. The Non Executive members of the Board take an active and influential part in Board procedures. A senior independent Non Executive Director, B M Hynes, has been appointed.

The Board acknowledges its role in defining and promoting the culture of the business. This culture is defined within the Company's brand values. It encourages all our employees, including Board members, to bring innovation, commitment and integrity to their roles.

The Code recommends that the Boards of quoted companies include at least two independent Non Executive Directors. The Board has fully reviewed the independence of Non Executive Directors and all Non Executive Directors are considered to be independent under the terms of the Code. As Chairman A J McWalter is considered to be independent as he was independent at the time of his appointment.

In addition to a formal agenda covering financial control, management and business development, there is appropriate debate addressing areas outside the regular agenda to ensure that all Directors are able to take an informed view of the progress of the business. The nature of the organisational structure of the Group allows Executive Directors to maintain a close involvement in all aspects of the Group's operations. A schedule of matters reserved for Board decision is maintained and a procedure exists to allow Directors access to independent professional advice if required.

The following table shows the attendance of Directors at Board meetings through the year.

	Meetings held	Meetings attended
A D Roper (retired 14 August 2020)	11	11
D J S Taylor	17	17
D M O'Connor	17	17
A J McWalter	17	17
B M Hynes	17	17
J A Roper	17	17
A C Bromfield	17	17

The Directors consider that the Board of Directors include key management for all areas of the business and that there are no other key management which require disclosure.

There are three sub-committees of the Board.

The Remuneration Committee is wholly composed of Non Executive Directors and is normally attended by the Chief Executive Officer who takes no part in discussions on his own remuneration. The Remuneration Committee is chaired by A C Bromfield.

The Audit Committee, which is wholly composed of Non Executive Directors, meets at least twice per year to receive reports from executive management and external auditors and is normally attended by the Finance Director. The Audit Committee is chaired by B M Hynes.

The Nomination Committee, which is wholly composed of Non Executive Directors, meets at least twice per year to discuss forward Board succession. A formal process has been established to deal with succession planning across the business. The Committee also considers the training and development needs of Directors. The Nomination Committee is chaired by A J McWalter.

Terms of reference for all three Committees and a Remuneration Policy statement have been agreed by the Board.

Shareholder engagement

The Company has a wide range of shareholders including major financial institutions and private investors. Regular contact is made with shareholders through presentations, direct contact and most importantly both formally and informally at the Company's Annual General Meeting. D J S Taylor, Finance Director and Company Secretary, is the main point of contact for shareholders, but all Directors are encouraged to meet with investors. The Board considers feedback received from shareholders carefully.

Internal control

The Board of Directors has overall responsibility for the Group's system of internal control and is responsible for reviewing its effectiveness. This system is designed to manage rather than eliminate the risk of failure to achieve business objectives and provides reasonable, but not absolute, assurance against material misstatement or loss.

The Board has established a system for ongoing review of risk assessment and management procedures to ensure that the controls on which it places reliance are operating satisfactorily and those new risks to which the business becomes exposed through its activities are recognised and appropriate controls implemented. These procedures have been in operation throughout the year and in the period to the date of this report.

The risks to which the Group is exposed are formally reviewed by the Board on a regular basis. Individual reviews of risk areas are carried out and the results reported to the Board. Operational responsibility for each of the main risk areas has been clearly identified and are allocated to either Directors of the Company or of the Company's principal operating subsidiary Churchill China (UK) Limited, under the supervision of the Board as a whole. Individual managers and employees are also aware, where appropriate, of their responsibilities in both identifying and controlling risk.

The Company's systems in relation to risk assessment and control seek to ensure that as part of the normal process of business management material risks are identified and brought to the attention of the Board. Directors review risk as part of a regular programme of meetings covering both general business processes and specific risk areas, risk is assessed as part of the strategic process. A system of reporting is in place to provide control information on key risk areas within reports submitted to the Board and reviewed. In addition to this Directors and managers are aware of their responsibility to monitor both changes in business activity and changes to the economical legislative environment in which the Company operates. Potential new risk areas have been identified and control procedures documented.

The Board and the Audit Committee have reviewed the effectiveness of the system of internal control during the year.

Corporate Governance

Internal financial control

The Board of Directors has overall responsibility for the Group's systems of internal financial control which it exercises through an organisational structure with authorisation, monitoring and reporting procedures which are appropriate to the needs of the business. These systems have been designed to give the Board reasonable, but not absolute, assurance against material misstatement or loss. The principal features of the Group's system of internal financial control are: the maintenance of a control environment in which the need for the highest standards of behaviour and integrity are communicated to employees; the use of a

detailed reporting system covering performance against comprehensive financial and other key operating indicators. The Board and the Audit Committee have reviewed the operation and effectiveness of the system of internal financial control during the year.

By order of the Board

D J S Taylor
Company Secretary
19 April 2021



Remuneration Report

Annual Statement

The sections of the Remuneration Report that are audited by PricewaterhouseCoopers LLP are indicated within this Report.

The significant effect of COVID-19 on the performance of the Company during the year clearly affected levels of remuneration and the Remuneration Committee's work during the year. The Committee has carefully considered the impact of COVID on executive and non-executive pay and has at all times recognised the impact of changes in the business and performance on shareholders, employees and other stakeholders.

The Remuneration Committee considered a number of matters during the year including the following:

- The review of the Company's Remuneration Policy to ensure that it remains appropriate.
- Base salary levels were reviewed, but no change was made to annual salaries. It was noted that all Directors, along with other senior employees, had accepted a 20% reduction in base pay during the period between April and July 2020.
- Given the lower performance of the business during 2020, performance bonus targets were not achieved and no bonus will be paid in relation to the year; and
- Performance targets for vesting and the potential grant of new awards under the Long Term Incentive Plan ('LTIP') were considered. The Remuneration Committee concluded that given the lack of clarity in relation to the future performance of the business, no grant awards under the LTIP would be made in 2020:

In each case the Committee was conscious of the need to clearly align Executive Directors' remuneration packages with shareholders interests and with consideration of both wider workforce remuneration and the reduction in employment levels during the year.

Details of the outcome of this work are set out below and later in the Annual Report on Remuneration.

Whilst as an AIM listed Company we are not required to satisfy the Directors Remuneration Report ('DRR') guidelines we continue to provide information on certain requirements of the Regulations to reflect good practice where this is in the interests of shareholders and where the cost and benefit of supplying this information is appropriate.

The Remuneration Committee is composed of A C Bromfield, who acts as Chair, A J McWalter and B M Hynes, all of whom are Non Executive Directors. D M O'Connor (Chief Executive Officer) and J D Massey (HR Director, Churchill China (UK) Limited) attended the Remuneration Committee meetings. D M O'Connor withdraws from any meeting where his remuneration is discussed.

Directors' remuneration policy

This section sets out the Company's Directors' Remuneration policy. The Policy is determined by the Remuneration Committee of the Company and is subject to regular and detailed review in relation to market practice and alignment with the Group's strategy. This policy has applied from the date of the 2020 Annual General Meeting.

The Remuneration Committee also reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy set out below where the terms of the payment were agreed:

- before the Policy came into effect or
- at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes "payments" includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted. For the avoidance of doubt, the Remuneration Committee's discretion includes discretion to determine, in accordance with the rules of the LTIP, the extent to which awards under that plan may vest in the event of a change of control or in a "good leaver" circumstance.

The Remuneration Committee may make minor changes to this Policy, provided they do not materially advantage Directors, to aid in its operation or implementation.

Remuneration Report

Future policy table

This section of the Remuneration Report is not audited.

Executive Directors

The table below describes each of the elements of the remuneration package for the Executive Directors. This policy applied from June 2020.

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Basic pay Core element of fixed remuneration to help recruit and retain employees of the appropriate calibre and experience	Basic pay for Executive Directors is normally reviewed annually (but may be reviewed more frequently if required). Consideration is given to the following when determining basic pay levels: <ul style="list-style-type: none"> Market conditions including typical pay levels for comparator companies taking into account the relative scale and complexity of the role and business Scale and scope of the role, experience and performance of the individual Average change in salary for the workforce as a whole 	There is no prescribed maximum annual increase. However, consideration is normally given to the average change in salary for the workforce as a whole. The Remuneration Committee considers any salary increases above the workforce average carefully. The Remuneration Committee may award salary increases above the workforce average in certain circumstances including, but not limited to: <ul style="list-style-type: none"> An Executive Director assuming additional responsibilities Significant improvement in individual performance Significant change in the size or scope of an Executive Directors' role. Where salary is initially set below market levels for a newly appointed Executive Director to allow for progress in their role. 	Not applicable, although overall performance of the individual and the Company is considered by the Remuneration Committee when setting and reviewing salaries.
Annual Bonus Rewards the achievement of annual financial and strategic business targets as well as the delivery of personal objectives Clawback and malus applies to enable the Company to mitigate risk	Bonus payments are made in cash following the completion of the audit for the year in which bonuses are earned. The Remuneration Committee may adjust the bonus pay-out should the formulaic outcome be considered not to reflect underlying business performance. The Remuneration Committee has the right to operate both clawback and malus provisions in respect of bonus scheme awards in relation to circumstances of corporate failure which may have occurred at any time before claw back is operated. Bonus payments are non-pensionable.	Executive Directors are entitled to earn up to 100% of basic pay as a bonus.	The bonus plan is based on the achievement of challenging performance targets. The financial measures which account for the majority of the bonus will generally include a measure of profitability and/or cash generation. Other targets may include the achievement of strategic objectives and specific personal objectives.
Benefits Provide a market competitive benefits package to help recruit and retain employees of the appropriate calibre and experience	Executive Directors are entitled to receive benefits including healthcare benefits and a fully expensed company car (or cash allowance) where it is deemed necessary to their role. Executive Directors are entitled to receive repayment of costs deemed necessary for them to perform their duties. Other benefits may be provided based on individual circumstances including, but not limited to, housing or relocation expenses.	Set at a level which the Remuneration Committee considers to be appropriately positioned taking into account the scale and scope of the role and market conditions in comparator companies.	Not applicable.

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Pensions Provide market competitive post-employment benefits to help recruit and retain employees of the appropriate calibre and experience	Executive Directors are entitled to membership of Company pension schemes in operation from time to time. The Company currently operates a defined contribution scheme. The Company previously operated a defined benefit scheme, which was closed for future accrual in 2006. Two Executive Directors are deferred members of this scheme. Executive Directors may choose to receive a salary supplement in lieu of pensions up to the value of the normal contribution level at no extra cost to the Company. Bonus and other benefits received by Executive Directors do not count towards pensionable pay.	Up to 10% of basic pay under the defined contribution scheme.	Not applicable.
Long term incentive schemes Incentivises employees to achieve a higher and sustained level of return to shareholders over a longer period of time Supports retention and promotes share ownership Clawback and malus applies to enable the Company to mitigate risk	The Company operates an LTIP approved by shareholders on 16 May 2012. LTIP awards are made on an annual basis typically in the form of nil or nominal cost options with vesting dependent on the achievement of performance conditions, normally over a three year period. Vested LTIP options must be exercised within ten years of the date of grant. No dividend equivalents are offered between grant and vesting. The Remuneration Committee has the right to operate both clawback and malus provisions in respect of LTIP awards in relation to circumstances of corporate failure which may have occurred at any time before claw back is operated. LTIP payments are non-pensionable.	Executive Directors may be granted LTIP awards up to 100% of salary each year. For threshold performance, 25% of the award vests. For on-target performance, 40% of the award vests. For maximum performance, 100% of the award vests. Straight line vesting applies between threshold, target and maximum vesting.	Challenging performance targets are set each year reflecting the business priorities that underpin longer term Group strategy. At least 50% of the LTIP award will normally vest based on adjusted Earnings Per Share performance targets.

There were no significant changes to Remuneration Policy during the year.

Non-Executive Directors

The table below sets out an overview of the remuneration of Non-Executive Directors.

Purpose and link to strategy	Operation
Chairman and Non-Executive Director fees Provide an appropriate reward to help recruit and retain Non-Executive Directors of the appropriate calibre and experience	Fees for Non-Executive Directors are normally reviewed annually (but may be reviewed more frequently if required). Consideration is given to the following when determining fee levels: <ul style="list-style-type: none"> Market conditions including typical fee levels for comparator companies A Non-Executive Director's role and responsibilities Non-Executive Directors do not participate in any incentive scheme.

There were no significant changes to Remuneration Policy during the year.

Remuneration Report

Explanation of performance metrics chosen

The annual bonus is assessed against financial, strategic and personal performance conditions, as determined by the Remuneration Committee. This incentivises Executive Directors to focus on delivering the strategic and financial goals of the Company, wider Company performance and bespoke individual objectives for each Executive Director. We believe that this encourages behaviour that facilitates the future development of the business.

The LTIP is assessed against longer term financial performance conditions, including adjusted earnings per share, to provide a robust measurement of the Company's financial performance over the longer term and ability to deliver a higher and sustained level of return to shareholders.

The Remuneration Committee retains the discretion to adjust the performance conditions and targets where it considers it appropriate to do so.

Pay policy for other employees

The Company values its wider workforce and aims to provide a remuneration package that is market competitive, complies with any statutory requirements and is applied fairly and consistently across the wider employee population. Where remuneration is not determined by statutory regulation, the key principles of the compensation philosophy are as follows:

- We remunerate people in a manner that allows for stability of the business and the opportunity for sustainable long term growth
- We seek to remunerate fairly and consistently for each role with due regard to market conditions, internal consistency and the Company's ability to pay

Total reward for Executive Directors will be set with sensitivity to subordinate staff within the Group with whom the packages will, as far as possible, be consistent and fair.

The Company takes into account the following when setting the remuneration policy for Executive Directors:

- Salary increases for the wider workforce
- Company-wide benefit (including pension) offerings
- Overall spend and participation levels in the annual bonus and LTIP

Statement of consideration of shareholder views

The Remuneration Committee considers a pro-active and transparent dialogue with its shareholders to be important. The Remuneration Committee will consult with major shareholders when it proposes to make any major changes to the remuneration policy for Directors.

Annual report on remuneration

This section of the Remuneration Report is audited. Emoluments of the Directors were as follows:

	Salary £	Benefits £	Pension and pay in lieu of pension £	Annual bonus £	Long term incentive plan £	Total remuneration £
2020						
Executive						
D J S Taylor	205,640	994	19,361	–	–	225,995
D M O'Connor	267,130	599	25,150	–	–	292,879
J A Roper	222,200	748	13,656	–	–	236,604
Non Executive						
A J McWalter	74,667	–	–	–	–	74,667
A D Roper*	31,959	–	–	–	–	31,959
B M Hynes	41,127	–	–	–	–	41,127
A C Bromfield	41,127	–	–	–	–	41,127
	883,850	2,341	58,167	–	–	944,358
2019						
Executive						
D J S Taylor	216,827	817	19,053	154,230	234,952	625,879
D M O'Connor	281,663	566	24,750	200,348	303,172	810,499
J A Roper	218,333	566	12,507	155,400	194,403	581,209
Non Executive						
A J McWalter	77,917	–	–	–	–	77,917
A D Roper	88,899	–	–	–	–	88,899
B M Hynes	43,365	–	–	–	–	43,365
A C Bromfield	43,365	–	–	–	–	43,365
	970,369	1,949	56,310	509,978	732,527	2,271,133

AD Roper* Until date of retirement 14 August 2020

No Director received an increase in base salary during the year. As previously stated, all Directors reduced their monthly salaries between 1 April 2020 and 31 July 2020.

There were no contracts of significance during or at the end of the financial year in which a Director of the Company was materially interested. Pension costs above represent contributions made by the Group to defined contribution schemes or payments in lieu of such contributions.

Performance bonuses

No performance bonuses were awarded in respect of 2020.

During 2020 Executive Directors were able to earn a maximum of 80% of salary as a performance bonus. Of this figure 17% of salary was payable for achievement of threshold profit levels, 33% for on target performance and 66% for achieving maximum profit objectives. A further 14% of salary could be earned against specified personal objectives. Straight line vesting applied between threshold, target and maximum performance levels.

In 2020 threshold profit bonus levels were payable on the achievement of an operating profit before exceptional items of £11,500,000, on target profit levels were payable on the achievement of operating profits before exceptional items of £12,400,000 and maximum target profit levels were operating profits before exceptional items of £13,200,000.

Profit based awards during the year were of 0% of base salary and personal objectives represented 0% of base salary.

The operation of the annual performance bonus scheme for 2021 has been amended to reflect the impact of COVID-19 taking into consideration the interests of shareholders.

Long term incentive plan

This section of the Remuneration Report is audited. Details of share options granted under the Long Term Incentive Plan are as follows. Each option has an exercise price of 10p per ordinary share.

	Number of options 31 December 2019	Options granted	Options exercised	Options lapsed	Number of options 31 December 2020	Date from which exercisable	Expiry date
D J S Taylor							
2017 grant	11,685	–	(11,685)	–	–	May 2020	May 2027
2018 grant	11,216	–	–	(11,216)	–	May 2021	May 2028
2019 grant	10,015	–	–	–	10,015	May 2022	May 2029
D M O'Connor							
2017 grant	15,179	–	(15,179)	–	–	May 2020	May 2027
2018 grant	14,570	–	–	(14,570)	–	May 2021	May 2028
2019 grant	13,010	–	–	–	13,010	May 2022	May 2029
J A Roper							
2017 grant	9,737	–	(9,737)	–	–	May 2020	May 2027
2018 grant	9,347	–	–	(9,347)	–	May 2021	May 2028
2019 grant	8,879	–	–	–	8,879	May 2022	May 2029

Exercise of the above options is subject to the achievement of performance conditions as specified by the Remuneration Committee and they are also subject to clawback and malus provisions which may be enacted in certain circumstances. The above number of options represent the amount that will vest based on the achievement of maximum performance targets. A lower percentage of the above options will vest given the achievement of lower than maximum performance. At target performance levels 40% of the above options would be expected to vest. Below threshold performance no options will vest.

* Notional pension fund interest has been excluded from both the base and target EPS levels.

Share price movements during the year

The market price of the Company's shares at the end of the financial year was 1340p (2019: 1820p). The range of prices for the year to 31 December 2020 was 2020p to 722.5p (2019: 940p to 1825p) per ordinary share.

Pensions

This section of the Remuneration Report is audited.

D J S Taylor, D M O'Connor and J A Roper were members of the Churchill China 2006 Group Personal Pension Plan during the year. Directors are allowed to exchange pension benefits for additional salary as long as this is at no additional cost to the Group. Pension contributions and payments in lieu of contributions made by the Group were as shown on page 28 and were at an equivalent rate of 10% of basic salary for D J S Taylor and D M O'Connor and 7% for J A Roper.

All scheme members have the opportunity to pay Additional Voluntary Contributions. Neither the contributions nor the resulting benefits are included in the above table.

D J S Taylor and D M O'Connor are deferred members of the Churchill Retirement Benefit Scheme. The pension benefit of D J S Taylor is funded to allow retirement between the ages of 60 and 65 with a pension based on accrued service to 31 March 2006. The pension benefit of D M O'Connor is funded to allow retirement at 65 with a pension based on accrued service to 31 March 2006.

A D Roper received benefits as a pensioner member of the Churchill Group Retirement Benefit Scheme.

Remuneration Report

Directors' service contracts

Executive Directors are not appointed on contracts for a fixed duration. All Executive Directors have contracts of service which can be terminated with a notice period of twelve months from the Company or six months from the Director.

Non Executive Directors are generally appointed on fixed term contracts for a period of twelve months but may normally be terminated with a notice period of three months.

There are no defined contractual payments in the event of termination of a Directors' service contract.

	Date of signature	Unexpired term at 31 December 2020
Executive		
D J S Taylor	6 October 2009	1 year
D M O'Connor	15 May 2012	1 year
J A Roper	3 November 2015	1 year
Non Executive		
A J McWalter	5 March 2021	5 months
B M Hynes	5 March 2021	9 months
A C Bromfield	23 June 2020	6 months

Directors' interests

This section of the Remuneration Report is audited.

The interests of the Directors and their immediate families and family trusts at 31 December 2020 in the 10p ordinary shares of the Company were as follows:

	2020	2019
D J S Taylor	59,555	55,555
D M O'Connor	37,963	36,113
A J McWalter	6,000	5,000
B M Hynes	4,000	4,000
J A Roper	1,003,835	1,000,835
A C Bromfield	2,829	983
	1,114,182	1,102,486

J A Roper's interest in the 10p ordinary shares of the Company at 31 December 2020 represented 9.1% (2019: 9.1%) of the Company's issued share capital.

There has been no change in the interests set out above between 31 December 2020 and 19 April 2021.

Director shareholding requirements

Directors are expected to hold shares in the Company in order to align their interests with those of shareholders. In the longer term Executive Directors are encouraged to hold the equivalent of 100% of annual base salary as shares in the Company and it is expected that this target level will be achieved by the retention of shares vesting under the Long Term Incentive Plan after the payment of associated tax. All the Executive Directors met this requirement.

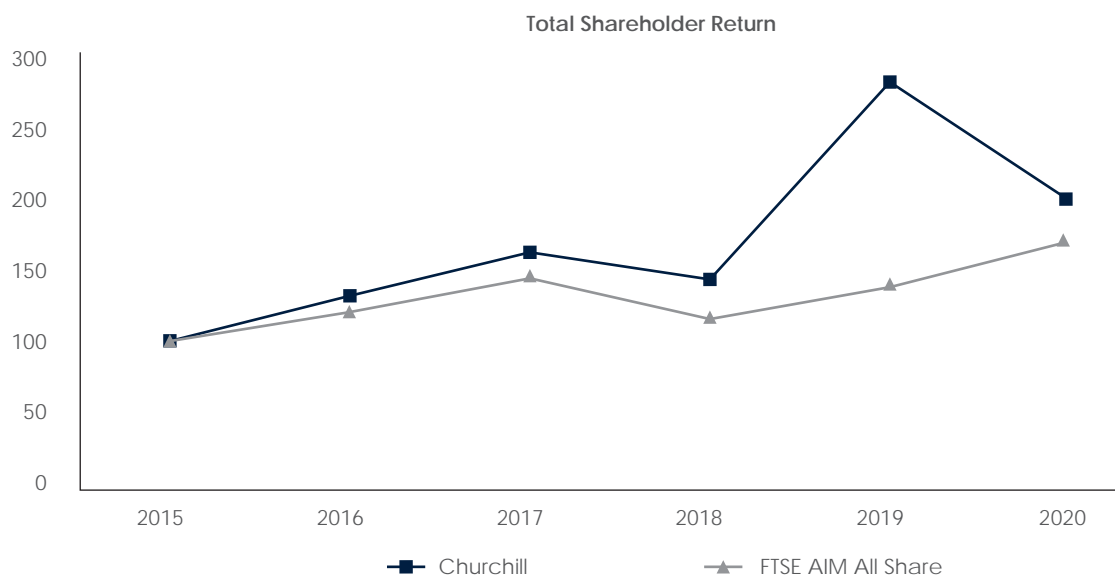
Shareholder consultation

The Remuneration Committee will consult with major shareholders in relation to its operation and particularly in relation to any major changes in remuneration policy. During the year, with the exception of the standard resolution at the Annual General Meeting, the Remuneration Committee did not believe there was any requirement to make any approach to shareholders on remuneration issues. No significant comments have been received from shareholders in relation to remuneration matters.

At the 2020 Annual General Meeting, the standard resolution in relation to the approval of the Report of the Remuneration Committee contained in the Annual Report for 2019 was passed. 99.8% of votes were cast in favour of the resolution, 0.2% against, with abstentions of 0.0%.

Performance Graph

This section of the Remuneration Report is not audited.



(Source: Investec Bank plc)

Over a five year period the Group's total return to shareholders has remained above that generated by the AIM All Share index. Total returns from the Company in the year have fallen as our share price was affected by general market falls related to COVID-19 and specific effects on shares exposed to hospitality markets. The Group has also suspended its dividend to shareholders until there is more clarity in relation to the scale and timing of a recovery in hospitality markets.

Our overall five year return has fallen to an average compound rate of 15% (AIM: 10%). Over the five year period total shareholder return from the Group has been 103% whilst that achieved by the AIM index as a whole was 67%. In the year to 31 December 2020 the overall return from the Group was -26%, (AIM: 22%).

In the opinion of the Directors the above index is the most appropriate against which to measure the total shareholder return of Churchill China plc.

Over the same period the Chief Executive Officer's remuneration has been as follows:

	2015	2016	2017	2018	2019	2020
Single figure of remuneration (£'000)	600	637	686	617	810	293
Bonus payout (of base salary)	70%	69%	70%	70%	70%	0%
LTIP vesting (of maximum)	100%	100%	100%	100%	100%	0%
Profit before exceptional items and income tax (£'000)	5,014	6,515	7,460	9,388	11,176	848
Share price at 31 December	720p	873.5p	1142.5p	940p	1820p	1340p

On behalf of the Board

A C Bromfield

Chair of the Remuneration Committee
19 April 2021

Nomination Committee Report

Annual Statement

The Nomination Committee has considered a number of matters including:

- Consideration of the current and future structure, size and composition of the Board, including assessment of its skills, knowledge and experience;
- Development of a formal succession planning process covering the Company's Board and the Board of its principal subsidiary Churchill China (UK) Limited; and
- The recruitment of a further independent Non Executive Director;

The Nomination Committee operates under Terms of Reference agreed by the Board.

A J McWalter

Chair of the Nomination Committee

19 April 2021

Audit Committee Report

Annual Statement

The Audit Committee has considered a number of matters since the beginning of 2020 including:

- Review of the annual and interim financial results and the Annual Report;
- Agreement of the Audit Plan for the year to 31 December 2020 including the scope of work to be carried out;
- Consideration of the Report of the External Auditors, PricewaterhouseCoopers LLP, to the Audit Committee;
- Review of the independence, effectiveness and level of fees to be paid to the External Auditors;
- Consideration of a number of detailed financial and disclosure areas; and
- Consideration of the impact of the COVID-19 pandemic on the business, in terms of financial performance, new and emerging risks, business continuity and financial resilience

Financial reporting and significant financial issues

The Audit Committee assesses whether suitable accounting policies have been adopted, whether management have made appropriate estimates and judgements and reviews reports prepared by management in relation to major judgements.

The Group's accounting policies and procedures in relation to the valuation of inventory, a key area of focus for the business, have been assessed. The value of inventory at 31 December 2020 was £12.8m (2019: £11.6m). The Committee is satisfied that the Group's policies and procedures are appropriate and have been consistently applied.

Internal audit

The Company does not use an internal audit department and does not believe that, given the size and structure of the business, the geographic proximity of its major operations and the close control effected by the involvement of Executive Directors in the day to day running of the business, such a department would provide an effective means of gaining significant improvements in internal control. The requirement for an internal audit function is reviewed annually.

B M Hynes

Chair of the Audit Committee

19 April 2021

Independent auditors' report to the members of Churchill China plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Churchill China plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2020 and of the group's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report 2020 (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 December 2020; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement and reconciliation of operating profit to net cash inflow from operating activities, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Audit scope

- We conducted a full scope audit of Churchill China UK Limited and Churchill China plc, alongside certain procedures on specific balances in Furlong Mills Limited, which collectively accounts for 98% of consolidated revenue, 98% of profit before income tax and 93% of total assets.
- The consolidation adjustments used to formulate the consolidated results of the group, as presented in the Annual Report, have been audited to overall group materiality.

Key audit matters

- Inventory Valuation (group)
- Consideration of the impact of Covid-19 (group and parent)

Materiality

- Overall group materiality: £357,000 (2019: £564,000) based on 5% of 3 year average profit before exceptional items and income tax (2019: 5% of profit before income tax).
- Overall company materiality: £106,000 (2019: £116,000) based on 1% of total assets.
- Performance materiality: £267,000 (group) and £79,000 (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to government grants (specifically Coronavirus Job Retention Scheme), competition law, employment regulation, health and safety legislation, the AIM Rules for Companies and the QCA Corporate Governance Code, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting inappropriate journal entries that increase profit and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations, and fraud.
- Tested Coronavirus Job Retention Scheme claims back to bank receipts and submitted claim forms. For a sample of employees we also reformed the calculation of amounts claimed and sought evidence of the eligibility for those employees.
- Inspected correspondence and discussions with legal advisors.
- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements.
- Testing of journals posted to revenue and expenses that have unusual account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Business combinations, which was a key audit matter last year, is no longer included because of there being no acquisitions during the year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter

How our audit addressed the key audit matter

Inventory Valuation (group)

Refer to the Audit Committee Report on page 33, the critical accounting estimates and judgements in note 1 to the accounts on page 50, and note 15 (Inventories) on page 58.

Inventory represents a significant asset on the group's balance sheet and is carried at the lower of cost and net realisable value ("NRV"). The group's accounting policy is to determine a provision based upon obsolete, slow moving or defective inventories, taking into account historical sales volumes, agreed stock levels and expected scrap values.

We tested the inputs to the provision calculation, including historical sales data, agreed stock levels, scrap values and also the underlying cost of each inventory line item agreeing a sample of inputs to supporting information.

We considered inventory write-offs in the financial year to ensure they are consistent with the key assumptions used in the inventory provision model at year end and that the methodology used for calculating the provision is appropriate. We tested the integrity of the provision calculation model to ensure that it was using the underlying data correctly and calculating provision amounts accurately.

We found the accounting for inventory valuation to be appropriate and consistent with the audit evidence obtained.

Consideration of the impact of Covid-19 (group and parent)

Refer to the Financial Outlook section within the Strategic Report on page 18 and note 1 to the financial statements (Basis of preparation) on page 46.

The emergence of Coronavirus ("Covid-19") during Q1 2020 has impacted all businesses, both financially and operationally. With the Group primarily operating within the Hospitality sector, management have performed a detailed assessment of the potential impact of Covid-19, specifically in respect of the preparation of the financial statements on a Going Concern basis.

In performing their assessment, management have modelled potential downside scenarios, including severe but plausible downside scenarios, and have also considered available mitigating actions which could be taken to provide either short term cost and cash savings or inflows.

The outcome of management's assessment is that, in their view, it remains appropriate to prepare the group and company financial statements on a going concern basis.

In addressing this key audit matter, we have performed the following procedures:

- evaluated management's downside scenarios, including challenging key assumptions being the profile of forecast revenue and variability of the cost base. We further sensitised management's forecasts to understand the impact of extended revenue depression and whether this would impact the conclusion drawn by management.
- checked the integrity of management's model, as well as agreeing underlying data to source documents.
- assessed whether management's mitigating actions are reasonably achievable based on our understanding of the business, including the nature of its cost base.
- obtained evidence to support disclosures within the financial statements and checked that the disclosures within the annual report are consistent with the financial statements and knowledge gained on the audit.
- We considered the potential impact on the balance sheet, specifically in relation to inventory, property, plant and equipment, right of use assets, trade and other receivables and intangible assets and do not consider there to be any indicators of material impairment as at the balance sheet date or subsequently.

Our conclusion in respect of going concern is included in the "Conclusions relating to going concern" section below.

Independent auditors' report to the members of Churchill China plc

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group is structured, and operates, as one consolidated business unit. The group financial statements are predominantly a consolidation of three UK statutory entities, comprising the group's main trading entity, Churchill China (UK) Limited, Churchill China plc company and Furlong Mills Limited. Furlong Mills Limited and Churchill China (UK) Limited have both taken an exemption from audit for the year ended 31 December 2020 by virtue of s479A of the Companies Act 2006. Consequently, these are not subject to their own financial statements audit. In establishing the overall approach to the group audit strategy, we concluded that Churchill China (UK) Limited and Churchill China plc are full scope components. Where balances in out of scope components, such as Furlong Mills Limited, are in excess of group performance materiality and contribute a notable proportion of a certain financial statement line item, these balances have been subject to audit procedures. For the two full scope components, we have allocated materiality as appropriate and designed our audit testing for each financial statement line item based on the size and nature of the transactions and balances that are aggregated to form that line item and our assessment of the risk of material misstatement. We used our professional judgement to determine the nature and extent of testing required over each line item in the financial statements. As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	£357,000 (2019: £564,000).	£106,000 (2019: £116,000).
How we determined it	5% of 3 year average profit before exceptional items and income tax (2019: 5% of profit before income tax).	1% of total assets
Rationale for benchmark applied	Profit before exceptional items and income tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark. For 2020, a three year average of profit before exceptional items and income tax is deemed appropriate as a result of the temporary disruption caused by COVID-19, in particular in the second quarter, which closed all production facilities and significantly impacted profitability.	The Company is not a profit oriented entity and is a holding company. As such it is considered that total assets is the most appropriate basis upon which to determine materiality.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £106,000 to £339,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £267,000 for the group financial statements and £79,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £17,000 (group audit) (2019: £27,000) and £5,000 (company audit) (2019: £5,800) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating management's detailed cash flow forecasts and liquidity headroom under both a base case and a severe but plausible downside scenario.
- Testing that the cash flows were consistent with board approved forecasts.
- Assessing management's track record of forecasting accuracy.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Mark Skedgel (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
19 April 2021

Consolidated income statement

for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Revenue	2	36,362	67,502
Operating profit before exceptional items		922	11,242
Exceptional items	3	(757)	117
Operating profit	3	165	11,359
Share of results of associate company	13	–	(22)
Finance income	6	60	124
Finance costs	6	(134)	(168)
Profit before exceptional items and income tax		848	11,176
Exceptional items	3	(757)	117
Profit before income tax		91	11,293
Income tax credit / (expense)	8	22	(2,136)
Profit for the year		113	9,157
Profit for the year is attributable to:			
Owners of the Company		113	9,063
Non-Controlling Interests		–	94
		113	9,157
Basic earnings per ordinary share	9	1.0p	82.6p
Adjusted basic earnings per ordinary share	9	6.5p	81.7p
Diluted earnings per ordinary share	9	1.0p	81.8p
Adjusted diluted earnings per ordinary share	9	6.5p	80.9p

All of the above figures relate to continuing operations.

The notes on pages 46 to 67 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2020

	2020 £'000	2019 £'000
Other comprehensive (expense) / income		
Items that will not be reclassified to profit and loss:		
Remeasurements of post employment benefit obligations net of tax	(4,571)	(996)
Items that may be reclassified subsequently to profit and loss:		
Impact of change in UK tax rate on deferred tax	84	–
Currency translation differences	(13)	(16)
Other comprehensive expense for the year	(4,500)	(1,012)
Profit for the year	113	9,157
Total comprehensive (expense)/income for the year	(4,387)	8,145
Attributable to:		
Owners of the Company	(4,387)	8,051
Non Controlling Interest	–	94
	(4,387)	8,145

Amounts in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income / (expense) is disclosed in note 8.

Consolidated balance sheet

as at 31 December 2020

	Note	2020 £'000	2019 £'000
Assets			
Non current assets			
Property, plant and equipment	11	20,058	19,769
Intangible assets	12	1,306	1,571
Deferred income tax assets	20	2,082	1,103
		23,446	22,443
Current assets			
Inventories	15	12,823	11,647
Trade and other receivables	16	4,309	10,951
Other financial assets	17	3,258	3,007
Cash and cash equivalents		10,738	12,572
		31,128	38,177
Total assets		54,574	60,620
Liabilities			
Current liabilities			
Trade and other payables	18	(5,663)	(11,105)
Current income tax liabilities		(24)	(1,022)
		(5,687)	(12,127)
Non current liabilities			
Lease liabilities	19	(215)	(269)
Deferred income tax liabilities	20	(1,149)	(1,040)
Retirement benefit obligations	21	(10,382)	(5,343)
		(11,746)	(6,652)
Total liabilities		(17,433)	(18,779)
Net assets		37,141	41,841
Equity attributable to owners of the Company			
Issued share capital	22	1,103	1,103
Share premium account	22	2,348	2,348
Treasury shares	23	(80)	(446)
Other reserves		1,215	1,802
Retained earnings		32,555	37,034
Total equity		37,141	41,841

The notes on pages 46 to 67 are an integral part of these consolidated financial statements. The financial statements on pages 38 to 67 were approved by the Board of Directors on 19 April 2021 and were signed on its behalf by:

D M O'Connor
Director

D J S Taylor
Director

Company number 02709505

Company balance sheet

as at 31 December 2020

	Note	2020 £'000	2019 £'000
Assets			
Intangible Assets	12	1,143	1,347
Investments in subsidiaries	14	6,999	6,999
Deferred income tax assets	20	94	181
		8,236	8,527
Current assets			
Trade and other receivables: non current	16	2,271	2,592
Trade and other receivables: current	16	223	223
Cash at bank and in hand		574	303
		3,068	3,118
Current liabilities			
Trade and other payables	18	(31)	(179)
Net current assets		3,037	2,939
Total assets less current liabilities		11,273	11,466
Net assets		11,273	11,466
Equity attributable to owners of the Company			
Issued share capital	22	1,103	1,103
Share premium account	22	2,348	2,348
Treasury shares	23	(80)	(446)
Other reserves		–	541
Retained earnings		7,902	7,920
Total equity		11,273	11,466

The notes on pages 46 to 67 are an integral part of these financial statements.

The financial statements on pages 38 to 67 were approved by the Board of Directors on 19 April 2021 and were signed on its behalf by:

D M O'Connor
Director

D J S Taylor
Director

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Company profit and loss account. The profit of the Company for the year was £120,000 (2019: £3,087,000).

Consolidated statement of changes in equity

for the year ended 31 December 2020

	Retained earnings £'000	Issued share capital £'000	Share premium account £'000	Treasury shares £'000	Other reserves £'000	Total £'000	Non controlling interest £'000	Total equity £'000
Balance at 1 January 2019	33,542	1,103	2,348	(729)	1,703	37,967	–	37,967
Comprehensive Income:								
Profit for the year	9,063	–	–	–	–	9,063	94	9,157
Other comprehensive income/(expense):								
Depreciation transfer – gross	12	–	–	–	(12)	–	–	–
Depreciation transfer – tax	(2)	–	–	–	2	–	–	–
Re-measurement of post employment benefit obligations – net of tax	(996)	–	–	–	–	(996)	–	(996)
Currency translation	–	–	–	–	(16)	(16)	–	(16)
Total comprehensive income	8,077	–	–	–	(26)	8,051	94	8,145
Transactions with owners								
Dividends relating to 2018 and 2019 (note 10)	(3,356)	–	–	–	–	(3,356)	–	(3,356)
Proceeds of share issue	–	–	–	3	–	3	–	3
Share based payment	199	–	–	–	125	324	–	324
Deferred tax – share based payment	118	–	–	–	–	118	–	118
Treasury shares (note 23)	(280)	–	–	280	–	–	–	–
Non controlling interest on acquisition	–	–	–	–	–	–	1,902	1,902
Purchase of non controlling interest	–	–	–	–	–	–	(1,996)	(1,996)
Write off of premium on purchase of non-controlling interest	(1,266)	–	–	–	–	(1,266)	–	(1,266)
Total transactions with owners	(4,585)	–	–	283	125	(4,177)	(94)	(4,271)
Balance at 31 December 2019	37,034	1,103	2,348	(446)	1,802	41,841	–	41,841
Comprehensive Income:								
Profit for the year	113	–	–	–	–	113	–	113
Other comprehensive income/(expense):								
Depreciation transfer – gross	12	–	–	–	(12)	–	–	–
Depreciation transfer – tax	(2)	–	–	–	2	–	–	–
Deferred tax – change in rate	107	–	–	–	(23)	84	–	84
Re-measurement of post employment benefit obligations – net of tax	(4,571)	–	–	–	–	(4,571)	–	(4,571)
Currency translation	–	–	–	–	(13)	(13)	–	(13)
Total comprehensive income	(4,341)	–	–	–	(46)	(4,387)	–	(4,387)
Transactions with owners								
Proceeds of share issue	–	–	–	4	–	4	–	4
Share based payment	310	–	–	–	(541)	(231)	–	(231)
Deferred tax – share based payment	(86)	–	–	–	–	(86)	–	(86)
Treasury shares (note 23)	(362)	–	–	362	–	–	–	–
Total transactions with owners	(138)	–	–	366	(541)	(313)	–	(313)
Balance at 31 December 2020	32,555	1,103	2,348	(80)	1,215	37,141	–	37,141

Company statement of changes in equity

for the year ended 31 December 2020

	Retained earnings £'000	Issued share capital £'000	Share premium account £'000	Treasury shares £'000	Other reserves £'000	Total equity £'000
Balance at 1 January 2019	8,152	1,103	2,348	(729)	416	11,290
Comprehensive Income:						
Profit for the year	3,087	–	–	–	–	3,087
Total comprehensive income	3,087	–	–	–	–	3,087
Transactions with owners						
Dividends relating to 2018 and 2019 (note 10)	(3,356)	–	–	–	–	(3,356)
Proceeds of share issue	–	–	–	3	–	3
Share based payment	199	–	–	–	125	324
Deferred tax – share based payment	118	–	–	–	–	118
Treasury shares (note 23)	(280)	–	–	280	–	–
Total transactions with owners	(3,319)	–	–	283	125	(2,911)
Balance at 31 December 2019	7,920	1,103	2,348	(446)	541	11,466
Comprehensive Income:						
Profit for the year	120	–	–	–	–	120
Total comprehensive income	120	–	–	–	–	120
Transactions with owners						
Proceeds of share issue	–	–	–	4	–	4
Share based payment	310	–	–	–	(541)	(231)
Deferred tax – share based payment	(86)	–	–	–	–	(86)
Treasury shares (note 23)	(362)	–	–	362	–	–
Total transactions with owners	(138)	–	–	366	(541)	(313)
Balance at 31 December 2020	7,902	1,103	2,348	(80)	–	11,273

Consolidated cash flow statement

for the year ended 31 December 2020

	2020 £'000	2019 £'000
Cash flows from operating activities		
Cash generated from operations (see page 45)	1,803	11,327
Interest received	60	124
Interest paid	(29)	(38)
Income tax paid	(847)	(1,845)
Net cash generated from operating activities	987	9,568
Cash flows from investing activities		
Purchases of property, plant and equipment	(2,403)	(3,914)
Proceeds on disposal of property, plant and equipment	44	96
Purchases of intangible assets	(50)	(1,721)
Purchase of subsidiary, net of cash acquired	–	370
Net cash used in investing activities	(2,409)	(5,169)
Cash flows from financing activities		
Issue of ordinary shares	4	3
Dividends paid	–	(3,356)
Purchase of Non Controlling Interest	–	(3,263)
New leases acquired	–	576
Principal elements of leases	(163)	(161)
Net purchase of other financial assets	(252)	(5)
Net cash used in financing activities	(411)	(6,206)
Net decrease in cash and cash equivalents	(1,833)	(1,807)
Cash and cash equivalents at the beginning of the year	12,572	14,380
Exchange loss on cash and cash equivalents	(1)	(1)
Cash and cash equivalents at the end of the year	10,738	12,572

Reconciliation of operating profit to net cash inflow from operating activities

	2020 £'000	2019 £'000
Continuing operating activities		
Operating profit after exceptional items	165	11,359
Adjustments for:		
Depreciation and amortisation	2,586	2,375
Negative goodwill - exceptional	–	(117)
Loss/(gain) on disposal of property, plant and equipment	3	(22)
(Credit) / charge for share based payments	(231)	324
Defined benefit pension cash contribution (see note 21)	(749)	(1,430)
Pension past service charge – non cash	40	–
Changes in working capital:		
Inventory	(1,176)	(906)
Trade and other receivables	6,696	304
Trade and other payables	(5,531)	(560)
Net cash inflow from operations	1,803	11,327

Notes to the financial statements

for the year ended 31 December 2020

1. Summary of significant accounting policies

Churchill China plc is a public company limited by shares that is incorporated and domiciled in the United Kingdom. The address of its registered office is No.1 Marlborough Way, Sandyford, Stoke-on-Trent, Staffordshire, ST6 5NZ, England. The Company's ordinary shares are publicly traded on AIM and it is not under the control of any single shareholder.

Basis of Preparation

The consolidated financial statements of Churchill China plc have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and defined benefit pension plan measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 1.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Going concern

The Board confirms that, having made enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in the preparation of the financial statements.

The Board has considered several scenarios in relation to the continued impact of COVID-19. This review has included consideration of the impact of different levels of reduction in revenue, different periods of effect, alternative operational responses and cost reduction plans, the high level of cash and deposits held by the Group and additional available financing.

The range of scenarios examined included the analysis of the effect of extended periods with little revenue. These reviews indicate that it is reasonable for the business to expect to continue in operational existence for at least the next twelve months.

New standards and interpretations not yet adopted

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Basis of consolidation

The consolidated financial statements of Churchill China plc include the results of the Company and its subsidiaries.

The financial statements of each undertaking in the Group are prepared to the balance sheet date under FRS 101 or FRS 102. Subsidiary accounting policies are amended, where necessary, to ensure consistency with the Group accounting policies under IFRS.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the purchase of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Segment reporting

Segmental information is reported in a way consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Churchill China plc. Income arising directly from a business segment is identified to that segment.

Revenue

Sales of ceramic and related products are recognised when performance obligations have been met, typically being the despatch of products from our warehouse. The transaction price is estimated taking into account discounts, rebates and sales related taxes.

Interest income is recognised on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income is recognised when the Company's right to receive payment has been established.

Leases

New leases are reviewed and classified in accordance with IFRS 16 based on their length and value. Right of use assets are recognised within Property, Plant and Equipment. Current lease liabilities are recognised in trade and other payables and non-current lease liabilities are presented on a separate line on the balance sheet as there are no other non-current trade and other payables.

1. Summary of significant accounting policies continued

Operating profit and exceptional items

Operating profit is stated both before and after the effect of exceptional items but before the Group's share of results in associate companies, impairment of investment in associate companies, finance income and costs and taxation.

The Group has adopted an income statement format which seeks to highlight significant items within the Group results for the period. Such items are considered by the Directors to be exceptional in size and nature rather than being representative of the underlying trading of the Group, and may include such items as restructuring costs, material impairments of non-current assets, material profits and losses on the disposal of property, plant and equipment, material increases or reductions in pension scheme charges and material increases or decreases in taxation costs as a result of changes in legislation. The Directors apply judgement in assessing the particular items, which by virtue of their size and nature are separately disclosed in the income statement and notes to the financial statements as "Exceptional items". The Directors believe that the separate disclosure of these items is relevant in understanding the Group's financial performance.

Dividends

Dividends to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are paid, following approval by the Company's shareholders.

Interest received/paid

Interest received and paid is treated in the cash flow statement as a cash flow from operating activities as this reflects the nature of the Group's business.

Retirement benefit costs

The Group operates a defined benefit pension scheme and defined contribution pension schemes.

The defined benefit scheme is valued every three years by a professionally qualified independent Actuary. In intervening years, the Actuary reviews the continuing appropriateness of the valuation. Scheme liabilities are measured using the projected unit method and the amount recognised in the balance sheet is the present value of these liabilities at the balance sheet date. The discount rate used to calculate the present value of liabilities is the interest rate attaching to high quality corporate bonds. The assets of the scheme are held separately from those of the Group and are measured at fair value. The accrual of further benefits under the scheme ceased on 31 March 2006.

The regular service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service and any benefits arising from curtailments, is charged or credited to operating profit in the year. These costs are included within staff costs.

A net interest cost on defined benefit plans is included within finance income or cost, based on the discount rate on the net post employment obligation measured at the beginning of the year. The difference between the market value of assets and the present value of accrued pension liabilities is shown as an asset or liability in the balance sheet.

Remeasurements of post employment benefit obligations are recognised in the statement of comprehensive income in the year, together with differences arising from changes in actuarial assumptions.

Costs associated with defined contribution schemes represent contributions payable by the Group during the year and are charged to the income statement as they fall due.

Share based payments

Where equity settled share options have been issued to employees, the fair value of options at the date of grant is charged to the Income Statement over the period over which the options are expected to vest. The number of ordinary shares expected to vest at each balance sheet date are adjusted to reflect non market vesting conditions such that the total charge recognised over the vesting period reflects the number of options that ultimately vest. Market vesting conditions are reflected within the fair value of the options granted. If the terms and conditions attaching to options are amended before the options vest any change in the fair value of the options is charged to the Income Statement over the remaining period to the vesting date.

National insurance contributions payable by the Company in relation to unapproved share option schemes are provided for on the difference between the share price at the balance sheet date and the exercise price of the option where the share price is higher than the exercise price.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which the company operates (its functional currency). For the purpose of the consolidated financial statements, the results of each entity are expressed in sterling, which is the presentation currency of the Group and is the presentation currency for the consolidated financial statements.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at average exchange rates for the period. Exchange differences arising, if any, are accounted for in other comprehensive income.

In order to manage its exposure to certain foreign exchange risks, the Group enters into forward currency contracts (see "Derivative financial instruments" below).

Notes to the financial statements

continued

1. Summary of significant accounting policies continued

Derivative financial instruments

The Group's operations expose it to the financial risks of changes in exchange rates. The Group uses forward currency contracts to mitigate this exposure. The Group does not use derivative financial instruments for speculative purposes. Changes in the fair value of derivative financial instruments are recognised immediately in the income statement as soon as they arise. Contracts are initially recognised at fair value, gains and losses on all derivatives held at fair value outstanding at a balance sheet date are recognised in the income statement.

Hedge accounting is not considered to be appropriate to the above currency risk management techniques and has not been applied.

Taxation

Income tax expense represents the sum of the current tax and deferred tax.

Current tax is based on the taxable profit for the year. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for, if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction there is no effect on either accounting or taxable profit or loss. The Group's liability for deferred tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date or are expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities may be set off against each other provided there is a legal right to do so and it is managements' intention to do so.

Property, plant and equipment

Property, plant and equipment is shown at cost, net of accumulated depreciation, as adjusted for the revaluation of certain land and buildings.

Depreciation is calculated so as to write off the cost, less any provision for impairment, of plant, property and equipment, less their estimated residual values over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Freehold buildings	2 on cost or valuation
Plant	10-25 on cost
Motor vehicles	25 on reducing net book value
Fixtures and fittings	25-33 on cost

Freehold land is not depreciated.

Right of use assets are depreciated on a straight line basis over the remaining life of the lease in accordance with IFRS 16.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amounts.

Intangible assets

Intangible assets, which comprise computer software, are shown at cost net of accumulated amortisation. Amortisation is calculated so as to write off the cost, less any provision for impairment, of intangible assets, less their estimated residual values over the expected useful economic lives of the assets concerned. The principal annual rate used for this purpose is:

	%
Computer software	33 on cost
Trademarks acquired	10-20 on cost

Neither the Group nor the Company holds any goodwill.

Impairment of non financial assets

At each reporting date the Directors assess whether there is any indication that an asset may be impaired. If any such indicator exists the Group tests for impairment by estimating the recoverable amount of the asset. If the recoverable amount is less than the carrying value of an asset an impairment loss is required. In addition to this, assets with indefinite lives are tested for impairment at least annually. The recoverable amount is measured as the higher of net realisable value or value in use. Non financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in first out basis and includes, where appropriate, direct materials, direct labour, overheads incurred in bringing inventories to their present location and condition and transport and handling costs. Net realisable value is the estimated selling cost less all further costs to sale. Provision is made where necessary for obsolete, slow moving and defective inventories.

1. Summary of significant accounting policies continued

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A large proportion of the Group's outstanding Trade Receivables are covered by credit insurance, however where this is not in place the Group applies the IFRS 9 expected credit loss model when reviewing the provision against Trade Receivables. Industry and sector information is reviewed to ensure any factors that would affect the future ability of these receivables to be collected is recognised.

Other financial assets

Other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non current assets.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held on call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Cash and cash equivalents are as defined under IAS 7.

Provisions

Provisions are recognised when (i) the Group has a present legal or constructive obligation as a result of past events, (ii) it is probable that an outflow of resources will be required to settle the obligation and (iii) the amount has been reliably estimated. The Directors estimate the amount of provisions required to settle any obligation at the balance sheet date. Provisions are discounted to their present value where the effect would be material.

Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk), credit risk, price risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to manage certain risk exposures.

Financial risk management is carried out by the finance department under policies approved by the Board of Directors.

(a) Market risk

(i) Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily in relation to the US dollar and Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's treasury risk management policy is to secure all of the contractually certain cash flows (mainly export sales and the purchase of inventory) and to review likely forward exposures in each major currency. Contractual certainty is considered to be where the Group has received a firm sales order or placed a firm purchase order.

At 31 December 2020, if Sterling had weakened by 5% against the US dollar with all other variables held constant, post tax profit for the year would have been £122,000 (2019: £179,000) higher, mainly as a result of foreign exchange gains on translation of US dollar denominated trade receivables, payables and cash balances. Equity would have been a further £22,000 (2019: £22,000) higher mainly as a result of differences in the translation of US dollar investments in subsidiary undertakings. If Sterling had weakened by 5% against the Euro with all other variables held constant, post tax profit for the year would have been £347,000 (2019: £717,000) higher, mainly as a result of foreign exchange gains on translation of Euro denominated trade receivables and cash balances. There would have been no substantial other changes in Equity.

(ii) Cash flow and fair value interest rate risk

The Group holds significant interest bearing assets and its finance income and operating cash flows are linked to changes in market interest rates. The Group has no significant short or long term borrowings.

The Group identifies cash balances in excess of short and medium term working capital requirements (see liquidity risk) and invests these balances in short and medium term money market deposits.

At 31 December 2020, had the interest rates achieved been 5% higher with all other variables held constant then post tax profit for the year would have been £2,000 (2019: £11,000) higher. Other components of equity would have been unchanged.

Notes to the financial statements

continued

1. Summary of significant accounting policies continued

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, other financial assets and credit exposures including outstanding trade receivables and committed transactions. Cash and cash equivalents are as follows:

	Credit rating	2020 £'000	2019 £'000
Lloyds Bank plc	A1	7,849	11,213
HSBC Bank plc	A1	2,022	1,030
Other	Min A	867	329
		10,738	12,572

Other financial assets are as follows:

	Credit rating	2020 £'000	2019 £'000
Santander UK plc	A1	2,004	2,253
Lloyds Bank plc	A1	1,000	–
National Westminster Bank plc	A1/A2	254	754
		3,258	3,007

Risk attached to the receipt of UK trade receivables is largely controlled through the assessment of the credit quality of each customer, taking into account its financial position, past experience and third party credit information. Risks attaching to export trade receivables are controlled through the use of export credit insurance and confirmed letters of credit. Where these cannot be obtained the credit control department assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The Group manages its debtor position and considers it is in a position of having limited credit risk (see note 16).

(c) Price risk

As explained in the Strategic report, the Group results are affected by changes in market prices. The risk attached to this is managed by close relationships with suppliers and ongoing product development.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and available funding through committed credit facilities. Liquidity risk is managed on a Group basis with expected cash flows being monitored against current cash and cash equivalents and committed borrowing facilities.

The Group has no long term borrowing and funds its operations from its own cash reserves and the Directors do not consider there to be significant liquidity risk. All liabilities are generally due within 3 months.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide finance for the long term development of the business and to generate returns for shareholders and benefits for other stakeholders in the business.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group currently has no debt.

Fair value estimation

The carrying value of trade and other receivables and trade and other payables are assumed to approximate their fair values.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

(a) Net realisable value of excess inventories (estimate):

The Group identifies inventory where it is believed that the quantity held is in excess of that which may be realised at normal price levels. The realisable value of this inventory is assessed taking into account the estimated sales price less further costs of sale. If the net realisable value of excess inventories were to be 10% higher than management's estimates the value of this provision would reduce by £318,000. If the net realisable value of excess inventories were to be 10% lower than management's estimates the value of this provision would increase by £258,000.

(b) Pension benefits (estimate):

The present value of the pension obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost or income for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

1. Summary of significant accounting policies continued

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate the Group considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 21.

(c) Going Concern (judgement)

The Group has considered several scenarios in relation to the potential scale and impact of COVID-19. This review has included the analysis of the impact of different levels of reduction in revenue, different periods of effect, alternative operational responses and cost reduction plans, the high level of cash and deposits held by the Group and additional available financing. These reviews indicate that it is reasonable for the business to expect to continue in operational existence. Please also refer to the Chairman's Statement on page 12 and Directors' Report on page 22.

It is not considered that any items meet the definition of a critical accounting estimate for the Company.

Parent Company significant accounting policies

The Company financial statements are prepared in accordance with The Companies Act 2006 as applicable to companies using FRS 101. The financial statements have been prepared under the historical cost convention. The principal accounting policies applied in the preparation of the Company financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Fixed asset investments

Fixed asset investments, comprising investments in subsidiary and associated companies, are stated as follows:

Subsidiary companies are stated at cost less any provisions for impairment. The associate company is accounted for using the equity method of accounting and is initially recognised at cost.

Where an event has occurred that gives rise to doubt about the recovery of the carrying value an impairment assessment is made. The impairment is calculated by comparing the investments carrying value to the recoverable amount as required by FRS 101.

Disclosure exemptions

The Company has adopted the disclosure exemptions covering the following standards as permissible by FRS101:

- (a) The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment
- (b) The requirements of IFRS 3 Business Combinations
- (c) The requirements of paragraph 33(c) of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- (d) The requirements of IFRS 7 Financial Instruments: Disclosures
- (e) The requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement
- (f) The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information
- (g) The requirements of IAS 7 Statement of Cash Flows.
- (h) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
- (i) The requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures.
- (j) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Other

Policies in relation to dividends and share based payments are the same as the Group accounting policies.

Notes to the financial statements

continued

2. Segmental analysis

The Group reports to the Chief Operating Decision Maker, the Board, on two distinct segments of revenue. The Group's reportable segments are as follows: Ceramics, the sale of ceramic tableware and complementary items and; Materials, the sale of materials for the production of ceramics, predominantly to the tableware industry.

	2020 £'000	2019 £'000
Market segment – Revenue		
Ceramics	33,092	62,681
Materials	5,453	7,787
	38,545	70,468
Intra group revenue	(2,183)	(2,966)
Group Revenue	36,362	67,502

	2020 £'000	2019 £'000
Geographical segment – Revenue		
United Kingdom	13,868	28,460
Rest of Europe	14,681	24,477
USA	4,145	7,232
Rest of the World	3,668	7,333
	36,362	67,502

The profits of the business are allocated as follows:

	2020 £'000	2019 £'000
Operating profit/(loss) before exceptional items		
Ceramics	1,104	10,840
Materials	(182)	402
	922	11,242
Exceptional items		
Ceramics	(666)	–
Materials	(91)	117
	(757)	117
Operating profit after exceptional items		
Ceramics	438	10,840
Materials	(273)	519
	165	11,359
Unallocated items		
Share of results of associate	–	(22)
Finance Income	60	124
Finance costs	(134)	(168)
Profit before income tax	91	11,293

	2020 £'000	2019 £'000
Segmental Assets		
Ceramics	49,121	54,592
Materials	5,358	6,028
	54,479	60,620
Segmental Liabilities		
Ceramics	16,527	17,379
Materials	906	1,400
	17,433	18,779

Capital expenditure was made as follows:

Ceramics £2,876,000 (2019: £5,379,000), Materials £171,000 (2019: £294,000).

3. Operating profit

	2020 £'000	2019 £'000
Expenses by nature		
Changes in inventories of finished goods and work in progress	(1,457)	(575)
Raw materials used	3,646	6,531
Purchase of goods for resale	1,781	4,286
Employee benefit expense – before exceptional costs (note 5)	16,142	23,850
Employee benefit expense – exceptional costs	530	–
Other external charges – before exceptional costs	12,563	20,230
Other external charges - exceptional	227	–
Depreciation and amortisation charges	2,586	2,375
Negative goodwill on acquisition - exceptional	–	(117)
Loss / (profit) on disposal of property, plant and equipment	3	(22)
Foreign exchange loss / (gain)	176	(415)
Total cost of sales, distribution costs and administrative expenses	36,197	56,143

Exceptional costs totalling £757,000 have been recognised relating to expenses incurred directly in relation to the effect of COVID-19 and the restructuring of the business to reflect lower demand and output levels. This is largely composed of severance costs of £863,000 and further costs of £227,000, offset by the release of share based payment and related provisions of £333,000.

In the year ended 2019, the Group acquired control of Furlong Mills Limited which had previously been accounted for as an associate. As set out in Note 13, the fair value of assets acquired was in excess of the consideration and so in accordance with IFRS 3, the negative goodwill of £117,000 was credited to the Income statement as an exceptional credit.

4. Average number of people employed

The average monthly number of persons (including Executive Directors) employed by the Group during the year was:

	2020 Number	2019 Number
By activity		
Production and warehousing	475	501
Sales and administration	218	221
	693	722

The Company had no employees other than Directors (2019: none).

5. Employee benefit expense

	2020 £'000	2019 £'000
Staff costs (for the employees shown in note 5)		
Wages and salaries	17,597	20,774
Social security costs	1,569	2,000
Defined contribution pension cost (see note 21)	634	619
Past service costs on defined benefit pension scheme	40	–
Other pension costs (see note 21)	242	133
Share options granted to directors and employees (see note 22)	35	324
Grants received	(3,975)	–
	16,142	23,850
Employee restructuring costs – exceptional	863	–
Share options granted to directors and employees - exceptional	(266)	–
Social security credit - exceptional	(67)	–
	16,672	23,850

Government grants

Grant income of £3,975,000 has been recognised as a deduction within Wages and Salaries. This was received from the Coronavirus Job Retention Scheme, £35,000 of which was accrued at the reporting date and subsequently received post year end.

Directors' emoluments

The statutory disclosures for Directors' emoluments, being the aggregate emoluments, the aggregate amount of gains made by Directors on the exercise of share options and the amount of money receivable by Directors under long term incentive plans in respect of qualifying services have been included within the Remuneration Report. In addition statutory disclosures in respect of the number of Directors to whom retirement benefits are accruing is disclosed.

Company

The Company did not make any payments to employees (2019: nil).

Notes to the financial statements

continued

6. Finance income and costs

	2020 £'000	2019 £'000
Interest income on cash and cash equivalents	60	124
Finance income	60	124
Interest on defined benefit schemes (note 21)	(105)	(130)
Other interest	(29)	(38)
Finance costs	(134)	(168)
Net finance cost	(74)	(44)

7. Auditor's remuneration

	2020 £'000	2019 £'000
During the year the Group obtained the following services from the Company's auditors:		
Fees payable to the Company's auditors for the audit of the Company and consolidated financial statements (Company £5,000, 2019: £4,000)	151	164
Total fees payable to the Group's auditors	151	164

8. Income tax expense

	2020 £'000	2019 £'000
Group		
Current tax - current year	41	1,754
Current tax - current year exceptional	(207)	-
- adjustment in respect of prior periods	(56)	(25)
Current tax	(222)	1,729
Deferred tax (note 20)		
Current year	143	407
Current year - exceptional	57	-
Deferred tax	200	407
Income tax (credit)/expense	(22)	2,136

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit of the consolidated entities as follows:

	2020 £'000	2019 £'000
Profit before income tax	91	11,293
Tax calculated at domestic tax rates applicable to profits in the respective countries	17	2,145
Expenses not deductible for tax purposes	(41)	20
Adjustment in respect of prior periods	(55)	(25)
Treatment of tax on share of profit of associate company	-	12
Other	101	(16)
Tax charge	22	2,136

The weighted average applicable tax rate was 19.0% (2019:19.0%).

During the year a credit of £1,072,000 (2019: credit of £204,000) in relation to deferred tax arising from actuarial gains and losses on the Group's defined benefit pension obligation and a debit of £86,000 (2019: credit of £118,000) in relation to deferred taxation on share based payments were adjusted directly within equity.

9. Earnings per ordinary share

Basic earnings per ordinary share is based on the profit after income tax and on 10,996,835 (2019: 10,974,010) ordinary shares, being the weighted average number of ordinary shares in issue during the year. Adjusted basic earnings per ordinary share is calculated after adjusting for the post tax effect of exceptional items (see Note 3).

	2020 Pence per share	2019 Pence per share
Basic earnings per share (Based on earnings £113,000 (2019: £9,063,000))	1.0	82.6
Add/(less): Exceptional Items: £607,000 (2019: (£97,000))	5.5	(0.9)
Adjusted basic earnings per share (based on adjusted earnings £720,000 (2019: £8,966,000))	6.5	81.7

Diluted earnings per ordinary share is based on the profit after income tax and on 11,028,486 (2019: 11,076,990) ordinary shares, being the weighted average number of ordinary shares in issue during the year of 10,996,835 (2019: 10,974,010) increased by 31,651 (2019:102,980) 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 share price during the year. Adjusted diluted earnings per ordinary share is calculated after adjusting for the post tax effect of exceptional items (see Note 3).

	2020 Pence per share	2019 Pence per share
Diluted earnings per share (Based on earnings £113,000 (2019: £9,063,000))	1.0	81.8
Add/(less): Exceptional Items: £607,000 (2019: (£97,000))	5.5	(0.9)
Adjusted diluted earnings per share (based on adjusted earnings £720,000 (2019: £8,966,000))	6.5	80.9

10. Dividends

The dividends paid in the year were as follows:

	2020 £'000	2019 £'000
Ordinary		
Final dividend 2019 nil (2019:20.3p) per 10p ordinary share	–	2,224
Interim 2020 nil (2019:10.3p) per 10p ordinary share paid	–	1,132
	–	3,356

The Directors now recommend payment of the following dividend:

Ordinary dividend:

Final dividend 2020 nil (2019: nil) per 10p ordinary share	–	–
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Dividends on treasury shares held by the Company are waived.

Notes to the financial statements

continued

11. Property, plant and equipment

The Company has no property, plant and equipment (2019: none). Details of property, plant and equipment relating to the Group are as follows:

Group	Freehold land and buildings £'000	Plant and Machinery £'000	Motor vehicles £'000	Fixtures and fittings £'000	Total £'000
At 1 January 2019					
Cost	12,898	25,030	795	2,131	40,854
Accumulated depreciation	(3,423)	(20,552)	(400)	(1,632)	(26,007)
Net book amount	9,475	4,478	395	499	14,847
Year ended 31 December 2019					
Opening net book amount	9,475	4,478	395	499	14,847
Additions	930	2,665	199	163	3,957
Additions of assets acquired through acquisition	1,046	2,130	–	–	3,176
Disposals	–	(1)	(71)	–	(72)
Depreciation charge	(316)	(1,532)	(117)	(174)	(2,139)
Closing net book amount	11,135	7,740	406	488	19,769
At 31 December 2019					
Cost	17,004	33,097	739	2,293	53,133
Accumulated depreciation	5,869	25,357	333	1,805	33,364
Net book amount	11,135	7,740	406	488	19,769
Year ended 31 December 2020					
Opening net book amount	11,135	7,740	406	488	19,769
Additions	1,003	1,335	73	197	2,608
Disposals	–	–	(48)	–	(48)
Depreciation charge	(278)	(1,662)	(98)	(233)	(2,271)
Transfer	75	(75)	–	–	–
Closing net book amount	11,935	7,338	333	452	20,058
At 31 December 2020					
Cost	18,101	34,138	657	2,491	55,387
Accumulated depreciation	6,166	26,800	324	2,039	35,329
Net book amount	11,935	7,338	333	452	20,058
Net book value of right-of-use-assets included within Property, Plant and Equipment					
At 31 December 2020	152	118	78	–	348
At 31 December 2019	241	75	104	–	420

Included within Property, Plant and Equipment is £298,000 classified in Land and Buildings which meet the classification of Assets In the Course of Construction.

12. Intangible assets

The Company acquired intangible assets of £1,500,000 relating to Dudson trademarks during the prior year, which now have a net book value of £1,143,000 (2019: £1,347,000). These are the only intangible assets the Company holds.

Details of intangible assets relating to the Group are as follows:

Group	Computer software £'000	Trademarks £'000	Total £'000
At 1 January 2019			
Cost	159	–	159
Accumulated amortisation	(68)	–	(68)
Net book amount	91	–	91
Year ended 31 December 2019			
Opening net book amount	91	–	91
Additions	216	1,500	1,716
Amortisation charge	(83)	(153)	(236)
Closing net book amount	224	1,347	1,571
At 31 December 2019			
Cost	375	1,500	1,875
Accumulated amortisation	(151)	(153)	(304)
Net book amount	224	1,347	1,571
Year ended 31 December 2020			
Opening net book amount	224	1,347	1,571
Additions	50	–	50
Amortisation charge	(111)	(204)	(315)
Closing net book amount	163	1,143	1,306
At 31 December 2020			
Cost	1,248	1,500	2,748
Accumulated amortisation	(1,085)	(357)	(1,442)
Net book amount	163	1,143	1,306

13. Investment in associate

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Cost				
At 1 January	–	2,159	–	1,106
Share of loss	–	(22)	–	(22)
Acquisition of subsidiary	–	(2,137)	–	(1,084)
At 31 December	–	–	–	–
Impairment				
At 1 January	–	427	–	–
Acquisition of subsidiary	–	(427)	–	–
At 31 December	–	–	–	–
Net book value				
Closing net book amount	–	–	–	–

During 2018, the Group's shareholding in Furlong Mills Ltd. was accounted for as an investment in an associate with the Group holding 46.1% of the share capital. In February 2019, the shareholding was increased to 55.6% and was then accounted for as a subsidiary from this date due to this then being controlled by the Group. On 30 September 2019 the Group acquired the remaining share capital of Furlong Mills Ltd.

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14. Investment in subsidiaries

Company

	2020 £'000	2019 £'000
Cost or valuation		
At 1 January	7,431	2,630
Acquisition of subsidiary	–	4,801
At 31 December	7,431	7,431
Impairment		
At 1 January and 31 December	432	432
Net book value		
At 31 December	6,999	6,999

Interests in Group undertakings

Interests in Group undertakings comprise the cost of investments in subsidiary undertakings. The principal operating subsidiaries of the Group are as follows:

Name of company	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held	Principal activity
Churchill China (UK) Limited*	England and Wales	Ordinary	100%	Manufacture and sale of ceramic and related products
Furlong Mills Ltd*	England and Wales	Ordinary	100%	Manufacture and sales of raw material for the ceramics industry
Churchill China, Inc**	USA	Ordinary	100%	Sale of ceramic and related products
Churchill Ceramica Iberia, S.L.***	Spain	Ordinary	100%	Provision of sales and management services within the Group.
Churchill Housewares Limited*	England and Wales	Ordinary	100%	Dormant
Churchill Ceramics (UK) Ltd.*	England and Wales	Ordinary	100%	Dormant
James Broadhurst & Sons Ltd.*	England and Wales	Ordinary	100%	Dormant
Churchill Tableware Limited*	England and Wales	Ordinary	100%	Dormant
Churchill Fine Bone China Holdings* Limited	England and Wales	Ordinary	100%	Dormant
Churchill Fine Bone China Limited*	England and Wales	Ordinary	100%	Dormant
Elizabethan Fine Bone China Limited*	England and Wales	Ordinary	100%	Dormant

The Directors believe the carrying value of subsidiaries is supported by their recoverable amounts. All subsidiaries are directly held with exception of Churchill Tableware Limited, Churchill Fine Bone China Limited and Elizabethan Fine Bone China Limited.

The consolidated financial statements include the results of each of the subsidiaries listed in the table above. Churchill China (UK) Limited and Furlong Mills Ltd have taken an exemption from audit for the year ended 31 December 2020 by virtue of s479A of the Companies Act 2006. In order to allow these subsidiaries to take the audit exemption, Churchill China plc has provided a guarantee to these subsidiaries, in accordance with s479C of the Companies Act 2006. This guarantees that Churchill China plc will support these subsidiaries in full going forward, will not recall any loans and will provide financial support should it be required.

* Registered address: No.1, Marlborough Way, Sandyford, Stoke on Trent ST6 5NZ, United Kingdom

** Registered address: 2043, Corporate Lane, Suite 115, Naperville, Illinois 60563, USA

*** Registered address: Ortega y Gasset, 22-24, Planta 3ª 28006 Madrid

15. Inventories

The Company has no inventory (2019: none). Details of inventory relating to the Group are as follows:

	2020 £'000	2019 £'000
Raw materials	712	993
Work in progress	1,465	1,569
Finished goods	10,646	9,085
	12,823	11,647

The Directors do not consider there is a material difference between the carrying value and replacement cost of inventories. The potential impact of changes in the net realisable value of inventories is shown in note 1.

The cost of inventories recognised as an expense and included in the income statements amounted to £26,075,000 (2019: £37,814,000). The movement in impairment provisions against the value of inventory in relation to slow moving and obsolete items during the year was an decrease for the Group of £66,000 (2019: increase of £158,000).

16. Trade and other receivables

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Trade receivables	4,087	10,370	–	–
Less: provision for impairment of trade receivables	(288)	(454)	–	–
Trade receivables – net	3,799	9,916	–	–
Prepayments	464	547	–	–
Derivative financial instruments	46	488	–	–
Receivables from group undertakings	–	–	2,494	2,815
	4,309	10,951	2,494	2,815
Less non-current portion: loans to group undertakings	–	–	2,271	2,592
Current portion	4,309	10,951	223	223

All non current receivables are due within five years from the balance sheet date, are not interest bearing and are unsecured.

Derivative financial instruments represent the fair value of gains on foreign exchange contracts.

The Group operates a credit risk management policy. Risk attached to the receipt of UK trade receivables is largely controlled through the assessment of the credit quality of each customer, taking into account its financial position, past experience and third party credit information. Risks attaching to export trade receivables are controlled through the use of export credit insurance and confirmed letters of credit. Where these cannot be obtained the credit control department assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Trade receivables that are less than three months past due and not covered by insurance arrangements are not considered impaired unless there is specific evidence to the contrary.

As of 31 December 2020, trade receivables of £3,427,000 (2019: £8,187,000) were fully performing.

As of 31 December 2020, trade receivables of £129,000 (2019: £651,000) were past due but not impaired. The ageing of these receivables is as follows:

	2020 £'000	2019 £'000
Up to 3 months	116	645
3 to 6 months	2	2
Over 6 months	11	4
	129	651

As of 31 December 2020 trade receivables with a gross value of £531,000 (2019: £1,532,000) were impaired and provided for. The amount of provision for 31 December 2020 was £288,000 (2019: £454,000). The individually impaired receivables relate to customers which are in unexpectedly difficult economic conditions. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2020 £'000	2019 £'000
Up to 3 months	504	1,440
3 to 6 months	4	92
Over 6 months	23	–
	531	1,532

The Directors consider that the carrying value of trade and other receivables is approximate to their fair value.

Movements on the Group provision for impairment of trade receivables are as follows:

	2020 £'000	2019 £'000
At 1 January	454	308
Increase/(Decrease) in provision for receivables impairment	(142)	144
Written off during the year	(24)	2
At 31 December	288	454

The creation and release of provision for impaired receivables have been included in 'other external charges' in the income statement (note 3). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

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16. Trade and other receivables continued

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2020 £'000	2019 £'000
Pounds	2,937	7,180
Euros	746	3,020
US dollar	626	751
	4,309	10,951

During the year the Group realised gains of £255,000 (2019: gains of £144,000) on settled forward option contracts that have been recognised in the Income Statement and as at 31 December 2020 held foreign currency exchange contracts for the sale of Euro of £5,171,000 (2019: £10,528,000) and the sale of US dollars of £905,000 (2019: £1,138,000). These contracts are held at their fair value with a gain of £46,000 (2019: gain of £488,000) recognised in relation to the contracts outstanding at the year end.

Company

As of 31 December 2020, Company trade receivables of £nil (2019: £nil) were fully performing. Amounts receivable are repayable in accordance with agreed terms. No interest is chargeable.

The carrying amounts of the Company's receivables are denominated in the following currencies

	2020 £'000	2019 £'000
Pounds	2,379	2,701
US dollar	115	114
	2,494	2,815

We have assessed amounts receivable from Group undertakings in accordance with the expected credit loss model prescribed by IFRS 9. The provision for impairment against these balances is considered to be immaterial.

17. Other financial assets

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Other financial assets	3,258	3,007	–	–

Other financial assets represent term deposits made with banks not classified as cash and cash equivalents with maturities of less than one year as at the balance sheet date. The deposits are not impaired.

18. Trade and other payables

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Trade payables	2,425	4,140	–	–
Amounts due to related parties	–	–	–	13
Social security and other taxes	432	921	–	–
Accrued expenses	2,588	5,898	31	166
Lease liabilities	218	146	–	–
	5,663	11,105	31	179

All the above liabilities mature within twelve months from the year end.

19. Lease liabilities

	Group	
	2020 £'000	2019 £'000
Lease liabilities - current	218	146
Lease liabilities – non current	215	269
	433	415

Further analysis relating to the lease liabilities acquired is included in Note 24.

20. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Group	2020 £'000	2019 £'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	1,775	766
– Deferred tax asset to be recovered within 12 months	307	337
	2,082	1,103
Deferred tax liabilities:		
--Deferred tax liabilities to be recovered after more than 12 months	(1,038)	(875)
– Deferred tax liabilities to be recovered within 12 months	(111)	(165)
	(1,149)	(1,040)
Deferred tax asset	933	63

The net movement on the deferred income tax account is as follows:

	2020 £'000	2019 £'000
At 1 January	63	353
Income statement charge (note 8)	(200)	(407)
Tax credits relating to components of comprehensive income	1,156	204
Amounts acquired	–	(205)
Tax (charged)/credited directly to equity (note 23)	(86)	118
At 31 December	933	63

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated tax depreciation £'000	Land and buildings revaluation £'000	Other £'000	Total £'000
Deferred tax liabilities				
At 1 January 2019	562	192	–	754
Amounts acquired	205	–	–	205
Charged/(credited) to the income statement	60	(2)	23	81
At 31 December 2019	827	190	23	1,040
(Credited)/charged to the income statement	88	(2)	–	86
Tax charges relating to components of comprehensive income	–	23	–	23
At 31 December 2020	915	211	23	1,149

	Accelerated tax depreciation £'000	Retirement benefit obligation £'000	Other £'000	Total £'000
Deferred tax assets				
At 1 January 2019	(86)	(926)	(95)	(1,107)
Charged to the income statement	86	222	18	326
Tax credits relating to components of comprehensive income	–	(204)	–	(204)
Credited directly to equity	–	–	(118)	(118)
At 31 December 2019	–	(908)	(195)	(1,103)
Charged to the income statement	–	114	–	114
Tax credits relating to components of comprehensive income	–	(1,179)	–	(1,179)
Charged directly to equity	–	–	86	86
At 31 December 2020	–	(1,973)	(109)	(2,082)

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20. Deferred income tax continued

The deferred income tax charged to/(credited to) equity during the past year is as follows:

	2020 £'000	2019 £'000
Fair value reserves in shareholders' equity:		
Tax on share based payments	86	(118)
	86	(118)

Deferred income tax of £2,000 (2019: £2,000) was transferred from other reserves to retained earnings. This represents deferred tax on the difference between the actual depreciation on buildings and the equivalent depreciation based on the historical cost of buildings.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has not recognised deferred income tax assets of £967,000 (2019: £866,000) in respect of capital losses amounting to £5,092,000 (2019: £5,092,000) that can be carried forward against future capital gains.

Company

Deferred tax assets of £94,000 (2019: £181,000) are recognised relating unrelieved tax losses.

21. Retirement benefit obligations

	2020 £'000	2019 £'000
Balance sheet obligations		
Pension benefits	10,382	5,343
Income statement charge		
Pension benefits	876	752
Pension benefits: Past service charge	40	–
Finance costs	105	130

The Group has operated seven principal pension schemes during the year. The cost of these schemes is as follows:

Scheme	2020	2019	Nature
Churchill Group Retirement Benefit Scheme	£40,000	Nil	Defined benefit plan. Closed to new entrants in 1999 and to which the accrual of future benefits ceased in 2006
Churchill China 1999 Pension Scheme	–	£307,000	Defined contribution plan
Churchill China 2006 Group Personal Pension Plan	–	£187,000	Defined contribution plan
Churchill China 2019 Pension Scheme	£586,000	£25,000	Defined contribution (Master Trust)
Furlong Mills Ltd. Pension Plan	£41,000	£27,000	Defined contribution plan
Churchill China section of the Peoples Pension	–	£99,000	Defined contribution auto enrolment scheme
Furlong Mills Ltd. section of the Now Pension scheme	£16,000	£14,000	Defined contribution auto enrolment scheme

The assets of the schemes are held separately from those of the Group. The total pension cost for the Group was £876,000 (2019: £739,000).

The balance of cost was incurred in respect of overseas and other pension arrangements. At the yearend amounts due to pension funds in respect of Company contributions were £77,000 (2019: £66,000). During the year, the Group consolidated the Churchill China 1999 Pension scheme, the Churchill Group Personal Pension Plan and the Churchill section of the Peoples Pension into the Churchill China 2020 Pension Scheme.

No contributions have been made to the Churchill Group Retirement Benefit Scheme in relation to current service since the date of cessation of the future accrual of benefits on 31 March 2006. A contribution of £749,000 (2019: £1,430,000) was made in respect of the amortisation of past service liabilities during the year.

The forward funding rate of the Scheme was agreed with the Scheme Trustees and Actuary following the completion of the 31 May 2017 triennial actuarial valuation in July 2018. The Group has agreed to make payments of £1,430,000 per annum in respect of the amortisation of past service deficits for three years to 2020 and £1,284,000 per annum until 2027 in respect of the amortisation of past service deficits.

The deficit in the Scheme is a liability of the Group as Scheme employer and the deficit amortisation payments aimed at removing this deficit may vary dependant on changes in the assumptions underlying the calculation of liabilities and actual experience. The Group takes into account the level of present and future payments into the Scheme along with capital expenditure and other investments, when considering the allocation of available cash flow and setting dividend policy. As previously stated, payments into the Scheme were increased by 100% in 2016.

21. Retirement benefit obligations continued

The amounts recognised in the balance sheet are determined as follows:

	2020 £'000	2019 £'000
Present value of funded obligations	61,447	53,339
Fair value of plan assets	(51,065)	(47,996)
Liability in balance sheet	10,382	5,343

The movement in the present value of defined benefit obligation over the year is as follows:

	2020 £'000	2019 £'000
At 1 January	53,339	47,998
Past service cost	40	–
Interest cost	1,107	1,408
Experience (gains)/losses on liabilities	(121)	66
Re-measurements from change in demographic and financial assumptions	8,381	5,193
Benefits paid	(1,299)	(1,326)
At 31 December	61,447	53,339

Included within net scheme liabilities is a liability of £938,000 (2019: £881,000) offset by a matching insurance policy asset of £938,000 (2019: £881,000) in respect of annuitised member benefits.

The movement in the fair value of plan assets over the year is as follows:

	2020 £'000	2019 £'000
At 1 January	47,996	42,555
Expected return on plan assets	1,002	1,278
Re-measurement of return on plan assets excluding amounts included in interest expense	2,617	4,059
Employer contributions	749	1,430
Benefits paid	(1,299)	(1,326)
At 31 December	51,065	47,996

Plan assets are comprised as follows:

	2020 £'000		2019 £'000	
Equity investment funds	26,107	51%	21,594	45%
Absolute return funds	7,914	15%	6,070	13%
Other investment funds	626	1%	2,110	4%
Debt investments	13,067	26%	16,032	33%
Cash and cash equivalents	3,351	7%	2,190	5%
	51,065		47,996	

The expected return on plan assets under IAS 19 (revised) is calculated at the same rate used to discount scheme liabilities.

The amounts recognised in the income statement are as follows:

	2020 £'000	2019 £'000
Past service costs	40	–
Interest cost on defined benefit plans	105	130

Past service costs represent a one off charge recognising the potential impact of the High Court ruling of 20 November 2020 in respect of GMP equalisation uplifts to historic transfer values.

The actual return on plan assets was a gain of £3,619,000 (2019: gain of £5,337,000).

Re-measurement losses of £5,643,000 (2019: losses of £1,200,000) gross of tax were recognised in the Statement of Other Comprehensive Income during the year. The cumulative amount of actuarial losses recognised in the Statement of Other Comprehensive Income is £23,680,000 (2019: £18,037,000).

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21. Retirement benefit obligations continued

The principal actuarial assumptions used were as follows:

Pension benefits

	2020 % per annum	2019 % per annum
Discount rate	1.4%	2.1%
Inflation rate – RPI	3.0%	3.0%
– CPI	2.3%	2.0%
Rate of increase of pensions in payment	2.3%	2.0%
Rate of increase of deferred pensions	2.3%	2.1%

Assumptions regarding future mortality rates are set based on advice in accordance with S2PA actuarial tables and experience.

The average life expectancy in years of a pensioner retiring at age 65 at the balance sheet date is as follows:

	2020 Years	2019 Years
Male	20.4	20.4
Female	22.3	22.3

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date, is as follows:

	2020 Years	2019 Years
Male	21.7	21.7
Female	23.9	23.8

Risks

Through its defined benefit pension plan, the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term.

The Group believes that due to the long-term nature of the plan liabilities and the strength of the supporting group, a level of continuing equity investment is an appropriate element of the group's long term strategy to manage the plans efficiently. The Trustees investment aim is to meet pension liabilities as they fall due.

Changes in bond yields which impact discount rate

A decrease in corporate bond yields will decrease the discount rate, which in turn will increase plan liabilities, although this will be partially offset by an increase in the value of the plan's bond holdings.

Inflation risk

The Group's pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy

The plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant where inflationary increases result in higher sensitivity to changes in life expectancy.

Sensitivity

A sensitivity analysis has been carried out on effect of varying certain assumptions within the calculation of retirement benefit obligations.

The effect of a 0.25% decrease in the discount rate to 1.15% would be to increase scheme liabilities by £2,765,000 (4.5%).

The effect of a 0.25% increase in CPI inflation to 2.55% would increase scheme liabilities by £1,598,000 (2.6%).

The effect of a 1 year increase to life expectancy would increase scheme liabilities by £2,151,000 (3.5%).

The amount of net deficit on retirement benefit schemes is also dependant on the valuation and investment performance of scheme assets.

22. Issued share capital and share premium account

Group and Company	Number of shares 000s	Ordinary shares £'000	Share premium £'000
At 1 January 2020 and 31 December 2020	11,030	1,103	2,348

The total authorised number of ordinary shares is 14,300,000 (2019: 14,300,000) with a par value of 10p (2019: 10p) per share. All issued shares are fully paid.

Share option schemes

The Long Term Incentive Plan was introduced in May 2012. Options under this scheme are equity settled and are granted with a fixed exercise price at a discount to the market price of the share at the date of issue. Options vest after three years from the date of grant and expire ten years from the date of grant. Options granted will be exercisable on a pro rata basis based on performance against threshold, target and maximum performance levels. Performance targets are set at the date of each grant by the Remuneration Committee. Payment of the exercise price of options is received in cash. A charge to the Income Statement has been made to reflect the fair value of options granted. Options have been valued using the Black Scholes option pricing model. No market based performance conditions were used in the fair value calculations.

The fair value per option granted and the assumptions used in the calculation were as follows:

Long term incentive plan

Grant date	4 May 2019	4 May 2018	5 May 2017
Share price at grant date	1,605p	1,117.5p	1047.5p
Exercise price	10p	10p	10p
Number of employees	3	3	3
Shares under option	31,904	35,133	36,601
Vesting period (years)	3	3	3
Expected volatility	15%	10%	15%
Option life (years)	10	10	10
Expected life (years)	3	3	3
Risk free rate	0.9%	1.4%	1.4%
Expected dividends expressed as a dividend yield	1.8%	2.4%	2.5%
Fair value per option	1,325p	901p	847p

The following options exercisable over ordinary shares were outstanding at 31 December 2020 under the Long Term Incentive Plan:

Number of shares	2020	2019	Exercise price	Date from which exercisable	Expiry date
May 2017 Grant	–	36,601	10p	May 2020	May 2027
May 2018 Grant	–	35,133	10p	May 2021	May 2028
May 2019 Grant	31,904	31,904	10p	May 2022	May 2029
	31,904	103,638			

Expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero coupon UK government bonds of a term consistent with the assumed option life. A reconciliation of option movements for the year to 31 December 2020 is set out below.

	2020	2020	2019	2019
	Number '000	Weighted average exercise price	Number '000	Weighted average exercise price
Outstanding at 1 January	103,638	10.0p	102,718	10.0p
Granted	–	–	31,904	10.0p
Exercised	(36,601)	10.0p	(30,984)	10.0p
Lapsed	(35,133)	10.0p	–	–
Outstanding at 31 December	31,904	10.0p	103,638	10.0p
Exercisable at 31 December	–	–	–	–

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22. Issued share capital and share premium account continued

There were nil share options granted during the year (2019: 31,904).

	2020	2020	2020	2020	2019	2019	2019	2019
	Weighted average exercise price	Number '000	Weighted average remaining life (expected)	Weighted average remaining life (contractual)	Weighted average exercise price	Number '000	Weighted average remaining life (expected)	Weighted average remaining life (contractual)
0 – 50p	10p	31,904	1.4	8.4	10p	103,638	1.3	8.3

The weighted average price for options exercised in the year was 10p (2019: 10p). The total credit during the year for employee share based payment plans was £231,000 (2019: charge £324,000) before tax, which related to equity settled share based payment transactions.

23. Treasury shares

Group and Company	2020 £'000	2019 £'000
As at 1 January	446	729
Re-Issue of shares	(4)	(3)
Transfer to retained earnings	(362)	(280)
As at 31 December	80	446

During the year the Group re-purchased nil (2019: nil) 10p ordinary shares and re-issued 36,601 (2019: 30,984) under employee share option schemes. The Group currently holds 7,337 (2019: 43,938) shares in Treasury.

24. Leases

The Group has recognised assets and financial commitments in respect of non cancellable leases for Buildings, Plant and Machinery and Motor Vehicles as below:

	2020 £'000	2019 £'000
Right of Use assets		
Land and Buildings	152	241
Plant & Equipment	118	75
Motor Vehicles	78	104
Total	348	420

The Group has recognised amounts in the Income Statement for Right of Use Assets included within Property, Plant and Equipment.

	2020 £'000	2019 £'000
Depreciation charge on Right of Use Assets		
Land and Buildings	88	89
Plant & Equipment	59	37
Motor Vehicles	12	10
Total	159	135

	2020 £'000	2019 £'000
Lease Liabilities		
Land and Buildings	164	251
Plant & Equipment	79	78
Motor Vehicles	190	86
Total	433	415

24. Leases continued

The maturity of lease liabilities is as follows.

	2020 £'000	2019 £'000
Within 1 year	218	146
Between 1 and 5 years	215	269
Total	433	415

The total cash outflow for Leases in the year was £198,000 (2019: £199,000).

25. Commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Property, plant and equipment	1,151	1,605	–	–
Intangible assets: Computer software	11	24	–	–
	1,162	1,629	–	–

26. Related party transactions

All subsidiaries within the Group are wholly owned and therefore the Group has taken the exemption from disclosing the related party transactions.

During the prior year, up to the point it became a subsidiary of the Group on 25 February 2019, the Group made purchases of £640,000 from Furlong Mills Ltd. There were no transactions between Furlong Mills Ltd and the Company.

27. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items in the financial statements. All financial assets including cash and cash equivalents, other financial assets and trade and related party receivables are classified as amortised cost, with the exception of derivative financial instruments classified as fair value through profit and loss, in both 2020 and 2019, as disclosed in note 16. Derivative financial instruments disclosed in note 16 are classified as level 2 in the fair value hierarchy given this is the fair value of financial instrument not traded in an active market and is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. All significant inputs required to fair value an instrument are observable and therefore the instrument is included in level 2.

All amounts shown in notes 18 and 19 are financial liabilities measured at amortised cost.

The carrying value and fair value of all financial instruments is considered to be materially consistent.

Notes to the financial statements

continued

Five year financial record

	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000
Revenue	51,102	53,530	57,479	67,502	36,362
Operating profit before exceptional item	6,398	7,460	9,237	11,242	922
Exceptional items	–	315	(541)	117	(757)
Operating profit	6,398	7,775	8,696	11,359	165
Share of results of associate net of impairment	157	159	185	(22)	–
Net Finance cost	(40)	(159)	(34)	(44)	(74)
Profit before exceptional item and income tax	6,515	7,460	9,388	11,176	848
Exceptional items	–	315	(541)	117	(757)
Profit before income tax	6,515	7,775	8,847	11,293	91
Income tax expense	(1,230)	(1,361)	(1,649)	(2,136)	22
Profit for the year	5,285	6,414	7,198	9,157	113
Dividends paid	2,085	2,433	2,840	3,356	–
Net assets employed	28,625	33,893	37,967	41,841	37,141
Ratios					
Operating margin before exceptional items	12.5%	13.9%	16.1%	16.7%	2.5%
Earnings before interest, tax, depreciation and amortisation (£000)	8,114	9,081	10,941	13,594	3,512
Basic earnings per share (p)	48.2	58.4	65.6	82.6	1.0
Adjusted basic earnings per share (p)	48.2	55.3	69.6	81.7	6.5



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