



CHURCHiLL



ANNUAL REPORT 2018



CHURCHILL

Over 220 years of... **INNOVATION, PASSION & EXPERTISE**

Within the hospitality sector, the choice of tableware must meet the highest standards for presentation, practicality and performance. Over 220 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 and distributor of high performance tabletop products to the Hospitality and Retail sectors 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.

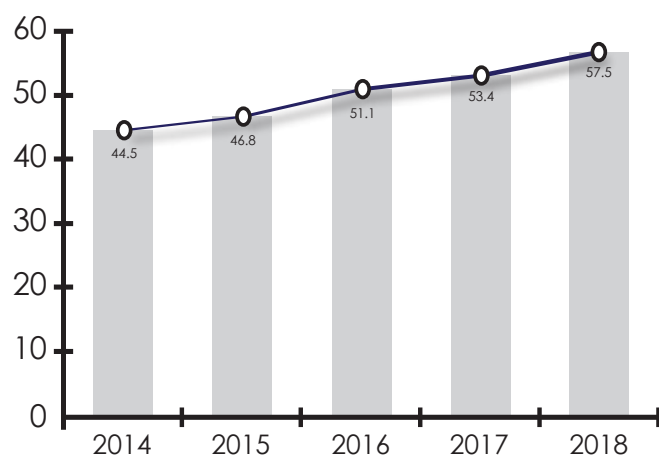
We maintain a strong, ungeared balance sheet. We aim to improve performance steadily on a long term basis and to generate cash each year to reinvest within our business and to provide an attractive return to shareholders.

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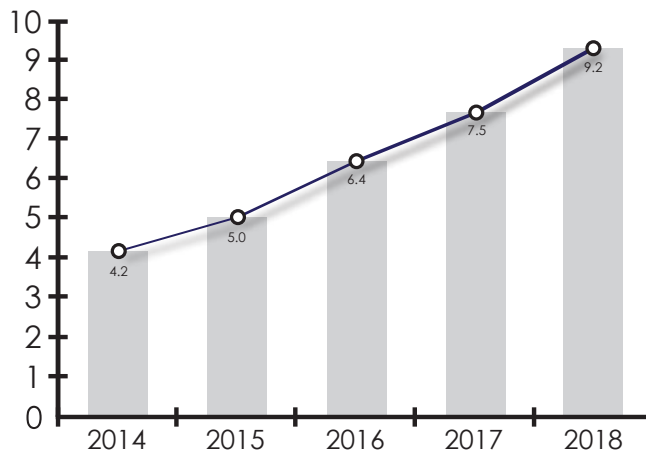
Five Year Performance

Revenue (£m) £57.5m ↑7.4%



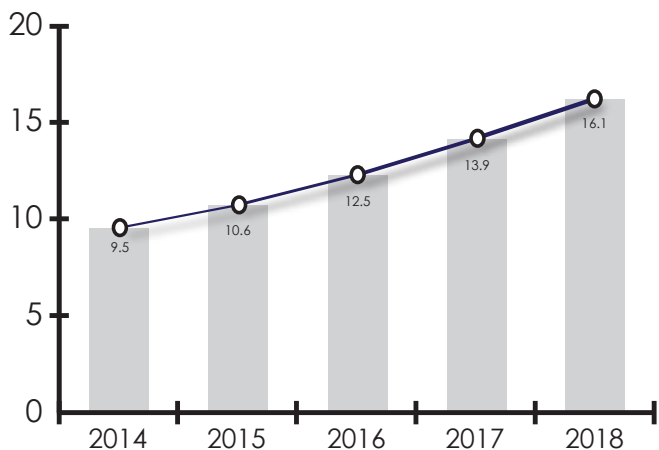
Revenue increased by 7% demonstrating the continued success of our strategic approach with continued strong progress in hospitality export markets.

*Operating Profit (£m) £9.2m ↑24%



Improved gross margin and stable costs have contributed to the improvement in Operating Profit.

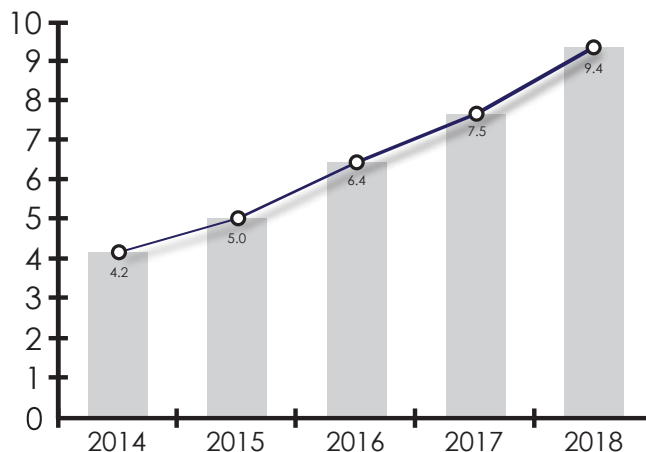
*Operating Margin (%) 16.1% ↑2.2%



Another year of improved operating margin growth, with further conversion of our output to innovative and higher margin added value products.

*Excluding exceptional items.

*Pre Tax Profit (£m) £9.4m ↑26%



Profit before tax has increased 26% largely as a result of our improved operating performance.

Other Highlights

- Adjusted EPS up 25.8% to 69.6p
- Basic EPS up 12.3% to 65.6p
- Final dividend up 18% to 20.3p
- Cash generated from operations £8.3m (2017: £7.7m)

“This performance clearly demonstrates the continued success of our strategic approach”



Financial Highlights

	2018 £'000	2017 £'000
Revenue	57,479	53,530
Operating profit before exceptional item	9,237	7,460
Exceptional items	(541)	315
Operating profit	8,696	7,775
Share of results of associate company	185	159
Net finance cost	(34)	(159)
Profit before exceptional items and income tax	9,388	7,460
Exceptional items	(541)	315
Profit before income tax	8,847	7,775
Dividends paid	2,840	2,433
Key ratios		
Operating margin before exceptional items	16.1%	13.9%
Earnings before interest, tax, depreciation, amortisation and exceptional items (£000)	10,941	9,081
Adjusted earnings per share*	69.6p	55.3p
Basic earnings per share	65.6p	58.4p
Diluted adjusted earnings per share*	69.0p	54.8p
Diluted earnings per share	65.0p	57.9p
Dividends per share paid	25.9p	22.2p

* Adjusted earnings per share and diluted adjusted 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) *•+
A D Roper *•+
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
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Solicitors

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

Stockbrokers and Advisers

N+1 Singer
1 Bartholomew Lane
London
EC2N 2AX

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

“Focusing on a single year's performance does not fully reflect the strength of our business.”

Introduction

I am, once again, pleased to report another strong performance from our business in the year. We have increased our revenue by 7%, our operating profits and our profits before exceptional items by 24% and 26% respectively. This performance clearly demonstrates the continued success of our strategic approach. Progress has again been made in growing our export revenues and in a further conversion of our output to innovative and higher margin added value products.

However, we believe that simply focusing on a single year's performance does not fully reflect the strength of our business or the transformation achieved in our operations over the longer term. Our business has developed substantially over the last five years from 2013 in line with our business strategy. Sales to Hospitality customers have increased from £32.7m to £52.4m at a compound annual rate of almost 10%, with Group

exports rising from 39% to 60% of our business. The proportion of Hospitality revenue represented by added value products with higher margins has risen from 10% to 44%, with a consequent increase in operating margin from 8% to over 16%.

The trading environment in the UK, alongside that of many businesses, is subject to increased uncertainty, but we believe we have a robust business model. Our plans will evolve, but we will continue to emphasise growth in export markets where there is a significant opportunity to improve our market share and in further development of innovative products which offer outstanding value to our customers. We have the capacity to deliver the investment needed to implement these plans and to sustain long term value growth for our shareholders.





Chairman's Statement

Financial Review

Total revenues increased by 7% to £57.5m (2017: £53.5m) with further strong growth in Hospitality export revenues more than offsetting lower Retail sales. UK revenues were 4% lower at £23.0m (2017: £24.0m) with the reduction largely attributable to more difficult retail markets. Export revenues were £5.0m higher (+17%) at £34.5m (2017: £29.5m).

Gross margins have again improved as we continued to grow sales of added value product.

Operating profit before exceptional items increased by 24% to £9.2m (2017: £7.5m). Operating margins before exceptional items improved to 16.1% (2017: 13.9%). Operating profit benefited from increased revenues, the continued move towards added value, differentiated, products and from a stable cost base.

Earnings before interest, tax, depreciation and amortisation increased by 20% to £10.9m (2017: £9.1m).

Profit before exceptional items and income tax rose by 26% to £9.4m (2017: £7.5m), largely as a result of our strong operating performance, but with some additional contribution from an improved performance from our associated company Furlong Mills and higher interest receipts. In the five years to the end of 2018 we have increased profit before income tax at a compound rate of 22% per annum.

Adjusted earnings per share improved by 26% to 69.6p (2017: 55.3p).

Changes in the law relating to the equalisation of statutory Guaranteed Minimum Pensions benefits will affect our legacy defined benefit pension scheme. Accordingly, a one-off exceptional non-cash charge of £0.6m has been provided in 2018 reflecting the cumulative effect of these changes. Additionally, sums previously provided for costs relating to the disposal of property which are no longer required have been released, generating an exceptional credit to profit of £0.1m. In 2017 we disposed of a surplus property; the profit on disposal of £0.3m was also treated as exceptional.

Reported profit before tax rose to £8.8m from £7.8m in 2017.

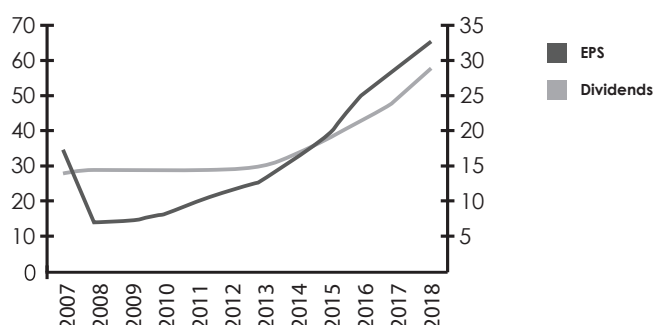
Basic earnings per share, including the above exceptional items, improved by 12% to 65.0p (2017: 58.4p).

We have also continued to generate good operating cash flows; operating cash generation was £8.3m (2017: £7.7m). Working capital requirements were higher than last year at £1.5m (2017: £0.2m) reflecting an increase in accounts receivable on higher sales. Inventory levels remained controlled despite higher sales, a wider product range and good customer service. The cash spend on capital projects was £2.1m (2017: £2.2m). We expect capital spend to rise in 2019 as we continue to invest in capacity, capability and efficiency. At the year end, net cash and deposit balances had risen by £1.8m to £17.4m (2017: £15.6m).

Dividend

The Board is recommending an 18% increase in the final dividend to 20.3p per share (2017: 17.2p) giving a total of 29.0p for the year (2017: 24.6p). We are pleased that the sustained growth in profitability and continued cash generation has allowed us to raise the dividend. If approved, the final dividend will be paid on 24 May 2019 to shareholders on the register on 26 April 2019, with the ex dividend date being 25 April 2019.

EPS and Dividend Growth

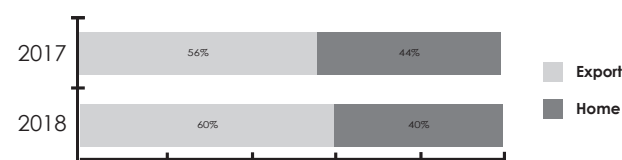


Business

Our business has performed strongly across the year. The good progress reported in the first half has been matched by further progress in the second half. We have grown our sales in Hospitality and particularly in export and much of this increase has come from added value products. We have continued to reduce our exposure to less attractive Retail markets. Exports now represent 60% of Group revenues.

Total sales to our Hospitality customers increased by £5.0m (10%) and reached a new record of £52.4m (2017: £47.4m). Hospitality sales now represent over 90% of Group revenue.

Hospitality by Market



We have continued to grow our position in overseas markets whilst maintaining a leading position within the UK. Overall export sales grew by 19% despite a slight headwind from currency. Over the last five years our Hospitality export sales have risen by an average of over 20% per year. Growth has again been strongest in Europe with continued progress in most countries. Our early stage investment in Rest of the World markets is also beginning to gain traction and we are pleased with the rate of growth in developing regions.

Our performance in the UK has stabilised following a much improved performance in the second half of 2018. We revised our approach to the UK in 2017 to reflect changing market dynamics by increasing management focus and targeting new product introductions. We are pleased with the progress made. Our established market position means we benefit from a consistent level of replacement sales.

Churchill's core values are innovation, technical performance and service. The strength of our established relationships with end users, distributors and agents in the UK and worldwide continues to be of great value to the business.

"Our business has performed strongly across the year."

Our increased profitability reflects both growth in revenue and particularly a further shift of our product range towards added value products. We carefully research market requirements and develop new products to meet these needs which allow us to improve our margins whilst offering substantial value to our customers. Sales of added value products now represent over 44% of our Hospitality sales. Whilst Stonecast continues to be the standout performer, our Studio Prints range, combining innovative materials with our existing print capability, continues to grow strongly. Our innovative market offer is increasingly differentiated from our closest competitors.

Retail operations have again reduced in scale as we have withdrawn from certain sectors of the UK market which have become unprofitable. Revenues were lower at £5.1m (2017: £6.1m).

Operations

The changes in our business create additional demands on our operational team and we have worked hard to ensure that the manufacturing strategy is closely aligned with our business plan. During the year we increased the capacity and efficiency of our added value product manufacturing and completed projects improving the flexibility of our production process. This allows us to balance the challenge of a producing wider product range and maintaining cost and service levels.

We expect to increase the level of investment in manufacturing in 2019. Expenditure on a further factory extension and on an additional fast fire kiln have already been approved and we expect to make progress on these and other projects over the year.

Our Production and Technical teams have delivered substantial additional value during the year. Our traditional strength of efficient and effective manufacturing continues to serve us well, but has been supplemented by significant progress in other areas. Our capacity to innovate new products has been significantly improved by the production re-engineering and materials development work carried out over the longer term

Furlong Mills

In February 2019 we announced the acquisition of a further 9.5% of the equity of Furlong Mills Limited for £454,000, taking our percentage shareholding to 55.6%. Furlong is a ceramic materials manufacturer based in Stoke on Trent and provides processed clay body and glaze to Churchill and other major manufacturers. Our investment secures a very important part of our supply chain and over the longer term reinforces our capacity to extend our technical ceramics capability. We have held an investment in Furlong for almost forty years and are pleased to now hold a larger interest.

Brexit

We have reviewed Churchill's exposure to various Brexit scenarios. A major part of our revenue is earned outside the UK and our manufacturing process, in part, relies upon materials and equipment sourced from overseas.

Our detailed Brexit planning is ongoing and we believe we have identified and developed plans to mitigate the effect of disruption on our trading model. We have completed a number of projects including securing and stocking an outbound logistics facility in the Netherlands to service our European business, improving our systems and establishing larger safety stocks of key raw materials. We have also developed detailed contingency plans in other areas. The UK government has recently announced that import tariff levels on most ceramic tableware products remain at 2018 levels. Our plans are founded on our core principles which are the provision of value to our customers and maintenance of a high level of service.

Whilst these actions may not fully offset all the effects of the Brexit process we believe that we have prepared for the forward uncertainty sensibly and that we have the flexibility to manage the level of risk to our business.



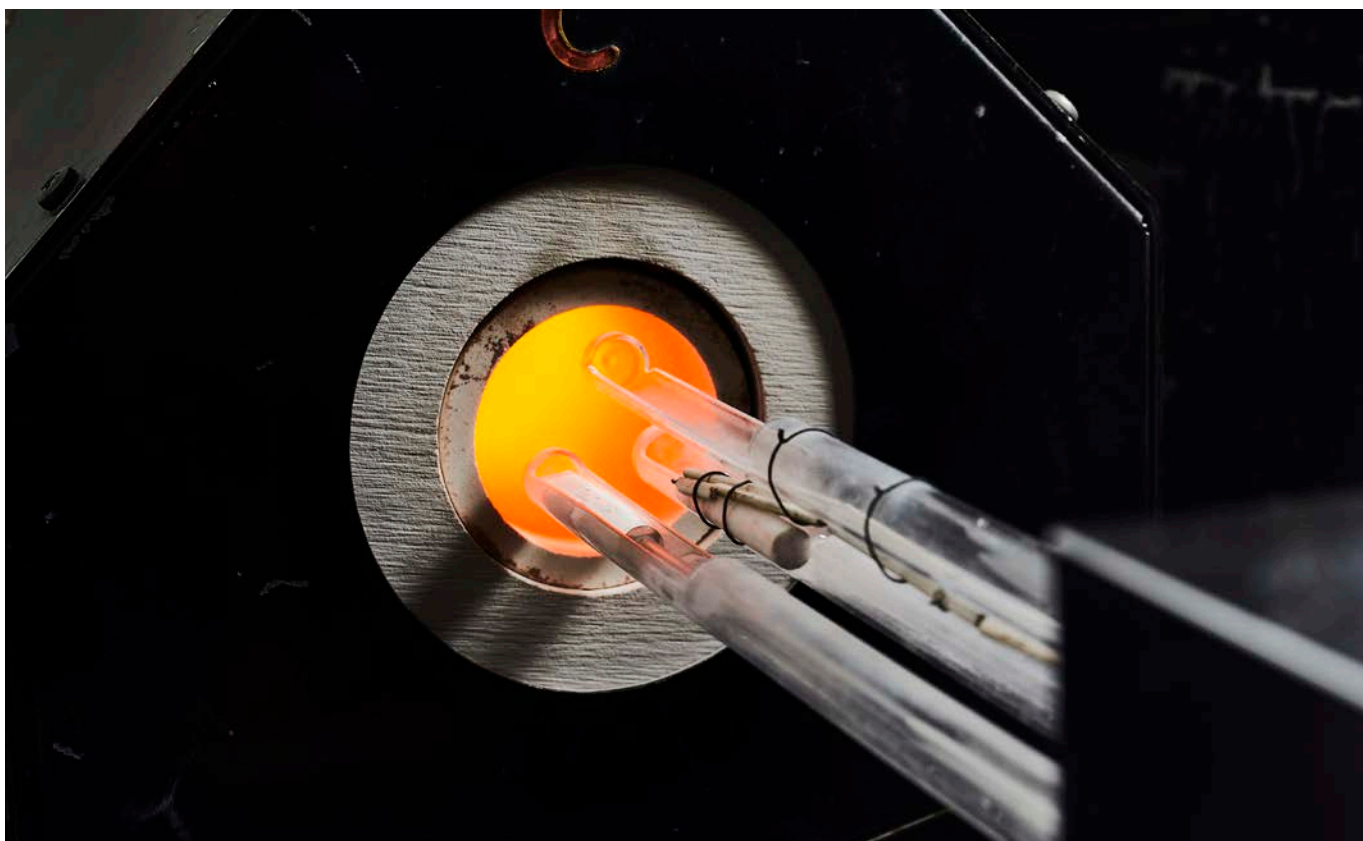
Chairman's Statement

People

During the year we have made significant progress in improving the alignment of our workforce with our business plans. We have focused on training, both in terms of operational skills and the personal development of our employees. The continuous improvement programme continues to deliver substantial benefits to the business both in terms of productivity and delivering more rewarding roles to our staff. We have increased the level of engagement within our workforce and have invested time

in establishing development and succession plans at all levels of the business. One of the major objectives in our forward plan is to ensure that we have the right people across our business to meet our aspirations.

Our workforce is skilled, loyal and well motivated and they create and embody the core values that serve us well. Once again I am grateful for their effort and commitment across the year.



“Our workforce is skilled,
loyal and well motivated
and they create and
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that serve us well”



Chairman's Statement

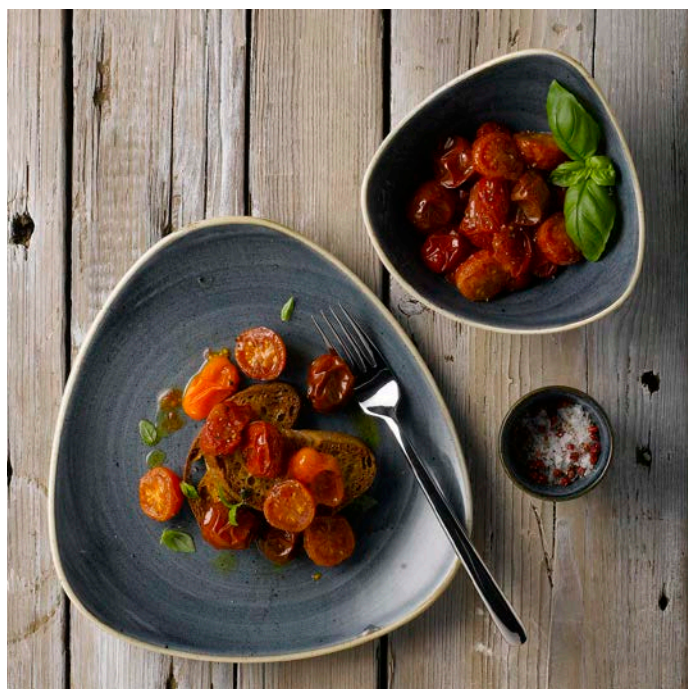
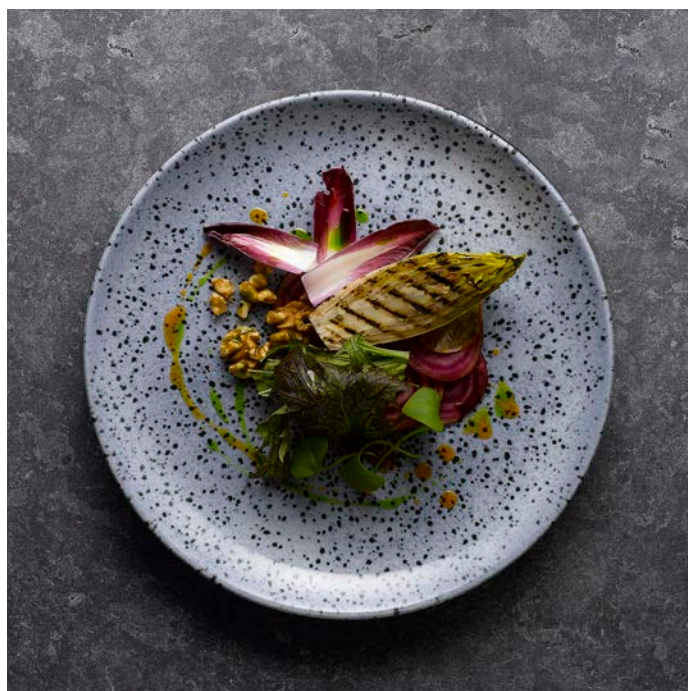
Prospects

2018 has been a very successful year for Churchill; we have exceeded our expectations in relation to business and financial performance and the growth we have achieved sits well in relation to our longer term progress. I am, however, most pleased by the manner in which we have delivered this performance, which is wholly in line with our strategic objectives. The progress we have made in moving the focus of our business towards Hospitality and export markets, the increased margin we achieve from innovative and differentiated products and the significant reinvestment of this profit in further development all follow the path we

established several years ago. We believe that this will be the basis of continued success in the future.

2019 has started well and we believe that we can, subject to external conditions, make further progress. However, we remain a business focused on the long term. Churchill has a robust and well invested business model supported by a strong financial position. Our market and product development plans continue to deliver profitable opportunities for growth and to create value for our business and all its stakeholders.

Alan McWalter
Chairman
26 March 2019





**“Churchill has a robust
and well invested
business model
supported by a strong
financial position”**

Strategic Report

The Directors present their Strategic Report for the Group for the year ended 31 December 2018.

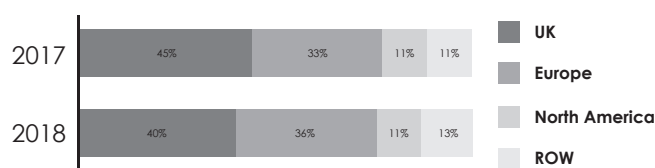
A review of the operations of the Group during the year and its future prospects are given in the Chairman's Statement on page 06 and in the following pages.

Principal activity and business environment

The Group serves hospitality and retail 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.

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. Hospitality markets benefit from barriers to entry given the premium customers place on service, quality and technical performance.

Revenue by Market



Whilst larger in scale than hospitality markets, retail markets are normally faster moving and are subject to a higher level of competition. Product life cycles are generally shorter, particularly in more price sensitive sectors of the marketplace.

We believe that our markets have grown in overall terms during the year, with lower market growth in certain markets being supported by faster progress in more rapidly developing geographies. This growth has been most evident in export markets where dining out continues to grow. We believe we have increased our market share in most of the export markets we serve. Growth in the UK market has slowed, reflecting economic and political uncertainty and a reduction in new investment in pubs, restaurants and hotels.

Our competitive position has benefited from Anti Dumping Duties imposed on the import of Chinese ceramics to EU and the relative weakness of Sterling against the US\$, Euro and other major currencies since the Brexit Referendum. We have continued our programme of investment in product innovation, market development and expansion of our manufacturing operations. Forecasts for the UK and our major export markets suggest that economic growth will continue in 2019, although the benefits of this may be offset by other macro-economic changes.

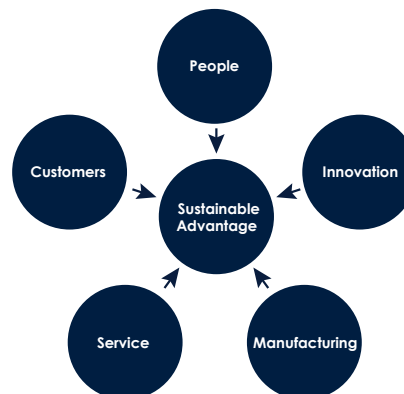
Resources and relationships

Our key resources remain our customers and employees, our technical and business skills, our long heritage of manufacturing and willingness to embrace new methods to deliver an outstanding service. Churchill is not a global consumer brand, but it is recognised in the hospitality and housewares markets as representing performance, innovation, uncompromising service and responsiveness.

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, to design new products to satisfy these trends and to confirm their acceptability. We believe we now produce market leading products offering significant added value to our customers.

Churchill, along with other UK manufacturers, has a significant technical advantage in the nature of the product we offer to our markets. Whilst it is not the lowest cost product it 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 principally from one site 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 manufacturing plant and logistics facilities have benefited from significant and regular long term investment to improve our business's efficiency and effectiveness. We believe we operate a high quality, flexible and cost-effective manufacturing process which allows us to respond quickly to customer needs. 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 increased our investment in training and development to provide more fulfilling roles for our staff and improve the effectiveness and productivity of our workforce.

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.

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.

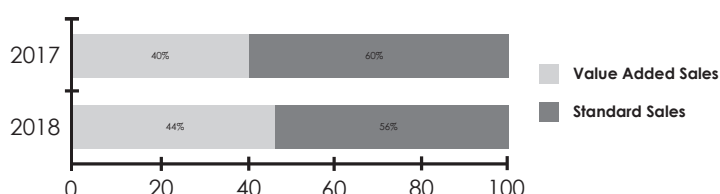
Strategy

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 shareholder returns principally 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 and to reduce our exposure to markets where the margin on sales does not adequately cover our costs of operation. For several years this has led us towards development of our position in hospitality markets worldwide.

Our strategic process 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 the distribution structure in new markets and, if they offer profit opportunities, invest to generate revenue, margin and ultimately a return for shareholders. We continue to expect short to medium term growth to be weighted towards export markets.

Hospitality Value Added Series



Innovation is increasingly important to support our ambition to grow our business. We have invested significant resource in new staff and flexible technology to increase our capability in this area. Our target is 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 facility.

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.

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.

Performance

A more detailed report on our performance is contained in the Chairman's Statement on page 06.

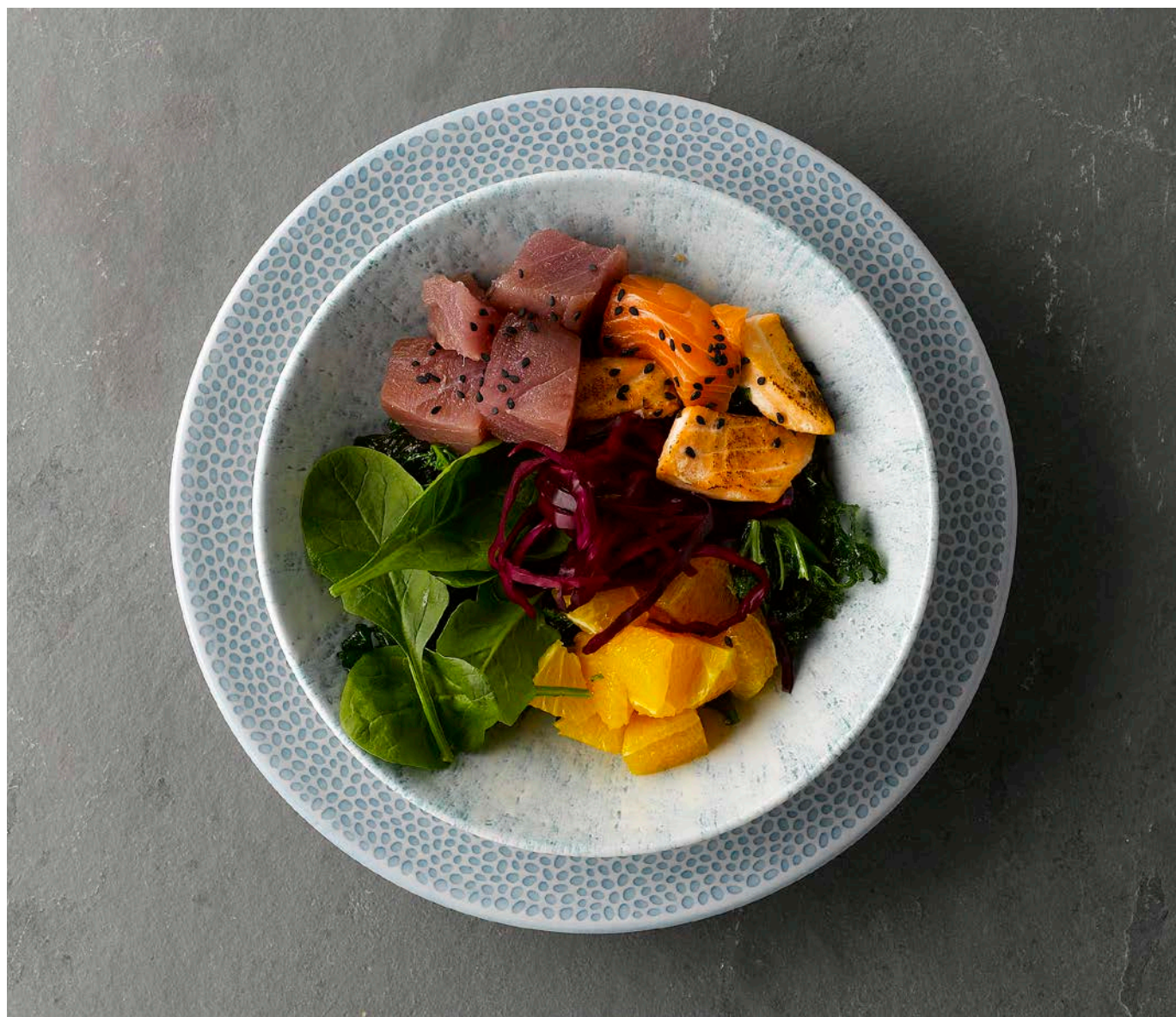
Hospitality markets have generally performed well. Innovation within our product range, extension of our distribution network and increased sales and marketing resource have all contributed to strong growth in revenues and improved margins.

The continued popularity of dining out as a leisure activity and further investment by hospitality providers such as pubs, restaurants and hotels remains a major driver of demand for our products. We have seen a further return on our investment in the development of European markets where we have a relatively small but growing market share. We have again increased our investment in building our business in the Middle East, Australasia and Central and South America. These markets are at an early stage of development and our target is to build them steadily to provide a balance to our larger UK and European operations.

Revenues from Retail markets have decreased, with the UK market in particular being subdued during the year. This lower level of performance was consistent with our expectations.

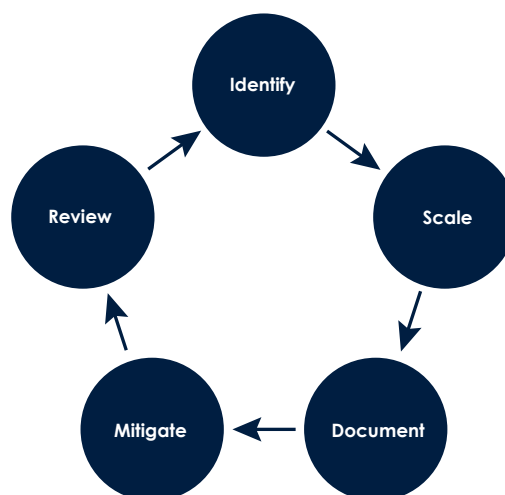
The imposition of EU duties on Chinese imports has been positive for all UK ceramics manufacturers. Anti dumping duties, first introduced in 2012, were due to expire in 2018. However the European ceramics federation (FEFP) has lodged a request for an expiry review given evidence of continued dumping. Anti dumping duties are expected to remain in force in the medium term until the conclusion of this review and may be renewed for a further period. The effect of the withdrawal of the UK from the EU on Anti dumping duties and other duties in the UK has not yet been clarified.

Material and labour costs have again risen at slightly higher rates than underlying inflation, energy costs have increased more markedly. We have invested significantly in new products and our manufacturing process over several years and a number of these investments have contributed to our improved margin position through cost reduction and extending our ability to offer cost-effective added value products to our customers.



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 implements 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 Economic Change	=	<p>The Group operates in dynamic markets where there have been significant recent changes to economic 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 market trends.</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>The impact of the 2016 Brexit Referendum and 2019 date for the UK leaving the European Union is not yet clear in respect of its impact on future trading conditions including the rate of economic growth in the UK market, any changes to tariffs or non tariff barriers, changes to trading conditions that may apply to UK businesses trading with the European Union and exchange rates. The Brexit process has introduced a number of variables into our operating environment.</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>In the short term the Group has identified Brexit as a key risk area and has invested substantial management resource in the development and implementation of a number of contingency plans to address possible changes arising from the United Kingdom's exit from the European Union and Single Market. Our principal target has been to secure our market position and service levels within Europe. We have established a logistics facility in the Netherlands, improved our systems and processes in our export operations and mitigated key risk areas in our UK manufacturing.</p>
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 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 all or parts of our factory for an extended period. This risk is controlled through 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. We have sought to control this risk through management of our overall energy consumption and through contractual arrangements to ensure that we maintain adequate supplies of power at a cost which enables us to operate efficiently.</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>

Risk	Risk Change	Risk Description
Cyber Security	=	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.
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 product to ensure it meets 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> <p>The imposition of Anti Dumping Duty ('ADD') by the EU on imports from China has generally been positive to the Group's trading operations. This Duty is currently under expiry review by the EU and its application may change following the completion of this review. ADD will continue in force at least until the determination of this review. The operation of ADD and other tariffs may also be affected by changes resulting from the United Kingdom's exit from the Single Market. The Group assesses and meets its obligations under taxes, tariffs and duties in the markets in which it operates and reflects potential changes in them within strategic and operational plans.</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 previous year, current year targets and against strategic expectations.

Revenue	2018 £m	2017 £m	Growth %
Group	57.5	53.5	7.4%
Hospitality	52.4	47.4	10.5%
Retail	5.1	6.1	-16.5%
UK	23.0	24.0	-4.2%
Export	34.5	29.5	16.8%

Sales to Hospitality customers performed well, recording growth against a strong comparative. Retail sales were lower, reflecting our strategic focus on profit rather than scale in this market.

Group export sales rose by 16.8%, largely as our European and Rest of the World markets again delivered returns on the investments we have made. UK revenues reduced reflecting a fall in activity levels in Retail market.

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.

	2018 £m	2017 £m	Growth %
Operating profit before exceptional items	9.2	7.5	23.8%
Operating margin	16.1%	13.9%	
Profit before exceptional items and income tax	9.4	7.5	25.8%
Exceptional items	(0.6)	0.3	
Profit before income tax	8.8	7.8	12.9%

Group operating profit before exceptional items increased by 23.8%. The main components of this increase were strong sales growth in export markets and improved gross margins from our focus on increasing the proportion of added value sales within our business. Overhead cost levels increased as we continued to invest in market and new product development.

Operating margins before exceptional items increased satisfactorily to 16.1% (2017: 13.9%) reflecting an increased mix of added value product and withdrawal from less profitable market sectors and cost controls.

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 grew by 25.8% mainly as a result of the strong increase in operating profits. The notional interest charge associated with our pension scheme fell during the year and our net cash interest received increased.

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

Exceptional cost: Pensions past service charge and the release of prior year cost provisions against the disposal of property totalling £0.6m. (2017: Exceptional profit on disposal of property, plant and equipment of £0.3m.)

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.

	2018 £m	2017 £m	Growth %
Operating cash generation	8.3	7.7	6.7%
Percentage of operating profit	89%	100%	
Percentage of operating profit (3 year average)	97%	104%	

Operating cash generation was maintained at satisfactory levels. The growth in operating profit was offset by a rise in working capital requirement to support increased trading levels, principally higher accounts receivable on additional revenues. Payments in respect of pension deficit amortisation continued at a level of £1.4m 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.

	2018 £m	2017 £m
Inventory	9.9	9.8

The rise in inventory holding levels reflects increased additional work in progress to allow more effective manufacturing.

Future outlook

The Board believes that the strong position we hold in a number of hospitality 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. We believe that the return from our Retail business will remain affected in the short term by a continued reduction in revenues, although this will be mitigated by a continued focus on margins and tight cost controls. 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.

The Board continues to believe that long term demand for hospitality products in developed markets will continue to increase as leisure related spending grows. There has been a long term expansion in eating out in the UK and the Group intends to continue to maintain its leading UK position whilst investing in the development of export markets where our current low market share allows us to grow more easily.

In the UK we believe that we will continue to enjoy a leading position based on our programme of introducing new products specifically targeted at meeting customer requirements. Our progress in export markets over the last five years provides us with an opportunity to grow future revenues steadily across a number of geographic sectors. It is therefore believed that there will be further opportunities for sustained growth in the medium and long term. Our market and product development strategies are well resourced and have generated a number of new options for us to address.

We remain mindful of heightened political and economic risks in certain markets.

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
26 March 2019



Directors' Report

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

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 06 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 2018 and 31 December 2017:

	2018 £'000	2017 £'000
Ordinary dividend:		
Final dividend 2017 17.2p (Final dividend 2016: 14.8p) per 10p ordinary share	1,886	1,621
Interim dividend 2018 8.7p (2017: 7.4p) per 10p ordinary share	954	812
	2,840	2,433

The Directors now recommend payment of the following dividend:

Ordinary dividend:		
Final dividend 2018 20.3p (2017: 17.2p) per 10p ordinary share	2,224	1,886

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 allowing the Company to meet other demands on its cash generation.

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*
B M Hynes *
A C Bromfield*

* Non Executive

The Directors retiring by rotation are D J S Taylor and J A Roper who being eligible, offer themselves for re-election. The unexpired terms of the service contracts of D J S Taylor and J A Roper are both twelve months.

The biographical details of the Directors are as follows:

David O'Connor, Chief Executive Officer, has worked for Churchill for 28 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 27 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 Belfield Group and Newmarket Travel and the Senior Independent Director at SDL plc. 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.

Andrew Roper, Non Executive Director has worked for the Company since 1973. He was appointed to his present role in 2014 following his retirement from his executive role as Chief Executive Officer. Andrew has significant long term experience in general and financial management.

Brendan Hynes, Non Executive Director and Senior Independent Director, is currently Chairman of Swallowfield plc and a Non Executive Director of Footasylum plc alongside other appointments. He was Chief Executive Officer of Nichols plc from 2007 to 2013 having previously been Finance Director. 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 Zotefoams plc and Harworth Group plc. 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 recognises that well trained and motivated employees are central to the current and future success of our business. We involve our workforce through open communication including team briefs and works committees to encourage engagement with the strategy and goals of the business. We work closely with the union representing our employees' interest to develop a relationship that will benefit our employees and meet our business needs.

Our employee training and development programme is an important part of our operations. 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 multi-skilling training programmes, particularly for supervisory and engineering employees, will help to enable us to meet our strategic manufacturing objectives. 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 fifteen 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 Masterclass programme, involving staff from across our Company, has proved valuable in unlocking the potential of employees within the business. Members of the Masterclass teams are given support in developing problem solving skills and in developing their overall capabilities.

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 aligned to value creation and allow them to share in the Group's success.

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.

In practice, our approach to health and safety is embedded in our day-to-day working practices. We aim to identify and to reduce health and safety risks associated with our operations to the lowest practical levels. We work to continually improve health and safety providing a safe and healthy working environment for all our employees and visitors. NEBOSH, NVQs and internal training programmes are regularly offered to update safety skills for all our employees.

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 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 machinery and processes. We run on-going programmes to minimise energy usage and waste.

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.

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 increased 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.

If additional financing is needed in the short term the Group has access to short term variable rate financing arrangements on an unsecured basis to provide finance for working capital requirements should they be required. The Group currently has no net debt and there are no assets currently subject to security, although cross guarantees exist between different Group companies. These assets would therefore form an alternative source of short to medium term funding if this were required. Larger long term funding requirements may be met from debt and equity sources if this is required.

During the year the Group generated £8.3m of cash flow from operating activities and after payment of corporate taxation of £1.3m, invested £2.1m in capital projects and returned £3.2m to shareholders by way of dividend and buy-back of shares.

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.

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 2 to the financial statements includes financial management risk considerations.

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.

Directors' Report

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 12 March 2019 exceeded 3% of the Company's issued share capital:

Shareholder	Number of ordinary shares	Percentage
Investec Wealth and Investment	1,457,023	13.3%
Hargreave Hale Limited	1,071,560	9.8%
S Roper	941,500	8.6%
Rathbone Nominees Limited	816,464	7.5%
E S & S J Roper	507,765	4.6%
Henderson Global Investors Limited	434,900	4.0%
M J & G Roper	352,065	3.2%

Share repurchase

The maximum number of shares held in treasury by the Company during the year was 74,922 10p ordinary shares. During the year the Company repurchased 38,000 (2017: 27,000) 10p ordinary shares at a total cost of £388,000 (2017: £271,000) in order to improve overall Shareholder return. 30,927 (2017: 34,151) shares were re-issued in respect of employee share option schemes for a total consideration of £3,000 (2017: £3,000). The Company retains a power, subject to the fulfilment of certain conditions and as approved at the 2018 Annual General Meeting, for the further purchase of its own shares.

Political contributions

The Group made no political contributions (2017: £nil) during the year.

Events occurring after the reporting period

On 25 February 2019 Churchill China plc acquired an additional 9.5% of the issued share capital of Furlong Mills Limited, for a total consideration of £454,000, funded from the Group's existing cash resources. This, together with the existing holding immediately prior to the transaction of 46.1%, gives the Company a majority shareholding of 55.6%. Furlong Mills Limited has previously been accounted for as an associated company and will be consolidated into the Group's accounts from the above date.

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 Financial Reporting Standards (IFRSs) as adopted by the European Union and 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 the 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 and Company 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 IFRSs as adopted by the European Union 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 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 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 and Company's auditors are aware of that information.

Disclosure of information to auditors

In the case of each of the Director in office at the date of the Directors' Report is approved, so far as each Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware. All Directors have taken 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 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
26 March 2019

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 four 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 adequate 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 with the exception of A D Roper. As Chairman, A J McWalter is considered to be independent as he was independent at the time of his appointment. A D Roper is not considered to be independent given his previous service as an Executive Director and his substantial shareholding. As the Board contains three independent Non Executive Directors this is not believed to be of major significance.

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	13	12
D J S Taylor	13	13
D M O'Connor	13	13
A J McWalter	13	13
B M Hynes	13	12
J A Roper	13	13
A C Bromfield	13	13

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. David 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.

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 preparing financial statements.

By order of the Board

D J S Taylor
Company Secretary
26 March 2019

Remuneration Report

Annual Statement

This section of the Remuneration Report is not audited.

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 remained appropriate;
- Base salary levels were assessed to ensure that the changes in the experience and performance of job holders was reflected in pay levels;
- The operation and scope of the annual bonus scheme was reviewed to ensure that it provided adequate incentive to Executive Directors without disproportionate cost to Shareholders; and
- Performance targets for vesting and the level of grant of new awards under the Long Term Incentive Plan ('LTIP') in May 2018 were considered.

In each case the Committee was conscious of the need to clearly align Executive Directors', remuneration packages with Shareholders' interests.

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

The Group has continued make solid progress against its performance and strategic targets. Profit performance in 2018 was again strong with operating and pre tax profits ahead of the previous year. We have continued to implement our long term strategy successfully and the operating and financial performance of the business reflects this progress.

Revenue growth has continued in hospitality export markets, reflecting the investments made over a number of years. The proportion of our sales of higher margin added value products has also increased satisfactorily. Underpinning these developments we have made good progress in improving our operational capability and in aligning our workforce to the business's strategic targets.

In financial terms we grew operating profit before exceptional costs by 24% and pre tax profit before exceptional costs by 26%. Cash and deposit balances have grown by £1.8m to £17.4m. We have increased the dividend declared in relation to the year by 18%. Total Shareholder return over the year was more restrained given general falls in UK equity values, but still exceeded the AIM All Share Index. Our compound return over the last five years at 22% is well ahead of the corresponding figure for AIM as a whole (2%).

Given this strong performance, we are pleased to report that annual profit related bonus payments to Directors were at a maximum level. The challenging targets under our LTIP have also been achieved. Overall the aggregate cost of Board remuneration fell by 1%, principally as a result of a reduction in the value of LTIP shares vesting.

The review of the Remuneration Policy during the year did not result in any substantial changes.

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, A D Roper 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 of the Remuneration Report is not audited.

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. The Policy has applied from 2018.

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.

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	<p>Basic pay for Executive Directors is normally reviewed annually (but may be reviewed more frequently if required).</p> <p>Consideration is given to the following when determining basic pay levels:</p> <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 	<p>There is no prescribed maximum annual increase. However, consideration is normally given to the average change in salary for the workforce as a whole.</p> <p>The Remuneration Committee considers any salary increases above the workforce average carefully.</p> <p>The Remuneration Committee may award salary increases above the workforce average in certain circumstances including, but not limited to:</p> <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 Director's role. Where salary is initially set below market levels for a newly appointed Executive Director to allow for progress in their role. 	<p>Not applicable, although overall performance of the individual and the Company is considered by the Remuneration Committee when setting and reviewing salaries.</p>
Annual Bonus Rewards the achievement of annual financial and strategic business targets as well as the delivery of personal objectives	<p>Bonus payments are made in cash following the completion of the audit for the year in which bonuses are earned.</p> <p>The Remuneration Committee may adjust the bonus pay-out should the formulaic outcome be considered not to reflect underlying business performance.</p> <p>Bonus payments are non-pensionable.</p>	<p>Executive Directors are entitled to earn up to 100% of basic pay as a bonus.</p>	<p>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.</p>
Benefits Provide a market competitive benefits package to help recruit and retain employees of the appropriate calibre and experience	<p>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.</p> <p>Executive Directors are entitled to receive repayment of costs deemed necessary for them to perform their duties.</p> <p>Other benefits may be provided based on individual circumstances including, but not limited to, housing or relocation expenses.</p>	<p>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.</p>	<p>Not applicable.</p>

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

This section of the Remuneration Report is not audited.

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: 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

This section of the Remuneration Report is not audited.

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 £
2018						
Executive						
D J S Taylor	211,159	817	18,555	150,029	98,126	478,686
D M O'Connor	274,300	566	24,103	194,891	123,481	617,341
J A Roper	195,713	566	11,116	133,000	89,560	429,955
Non Executive						
A J McWalter	75,000	–	–	–	–	75,000
A D Roper	86,575	–	–	–	–	86,575
B M Hynes	42,232	–	–	–	–	42,232
A C Bromfield	42,232	–	–	–	–	42,232
	927,211	1,949	53,774	477,920	311,167	1,772,021
2017						
Executive						
D J S Taylor	206,040	779	18,105	146,377	175,246	546,547
D M O'Connor	267,650	530	23,519	189,952	204,602	686,253
J A Roper	186,700	530	11,043	121,856	–	320,129
Non Executive						
A J McWalter	75,000	–	–	–	–	75,000
A D Roper	84,476	–	–	–	–	84,476
B M Hynes	41,208	–	–	–	–	41,208
A C Bromfield	41,208	–	–	–	–	41,208
	902,282	1,839	52,667	458,185	379,848	1,794,821

This section of the Remuneration Report is not audited

On 1 August 2018, the salaries of all Directors, with the exception of A J McWalter and J A Roper, rose by 2.5% in line with the general inflationary rise given to employees. A J McWalter's salary is reviewed triennially, the last increase being on 1 May 2016. J A Roper's salary increased by 9.1% to reflect his increased experience and responsibilities within the business.

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. No Director waived emoluments in respect of the years ended 31 December 2017 and 2018. Pension costs above represent contributions made by the Group to defined contribution schemes.

Performance bonuses

Performance bonuses were awarded given the achievement of growth in Operating Profit before exceptional items substantially above target levels and also successful performance against personal objectives.

During 2018 Executive Directors were able to earn a maximum of 70% of salary as a performance bonus. Of this figure, 14% of salary was payable for achievement of threshold profit levels, 28% for on target performance and 56% 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 2018 threshold profit bonus levels were payable on the achievement of an operating profit before exceptional items of £7,610,000, on target profit levels were payable on the achievement of operating profits before exceptional items of £8,010,000 and maximum target profit levels were operating profits before exceptional items of £8,400,000.

Profit based awards during the year were of 56% of base salary and personal objectives represented 14% of base salary.

No change has been made in the operation of annual profit bonus scheme for 2019, with the exception that profit target levels have been increased to reflect higher target profitability.

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 2017	Number of options granted	Number of options exercised	Number of options 31 December 2018	Date from which exercisable	Expiry date
D J S Taylor						
Long Term Incentive Plan (2015 grant)	14,123	–	(14,123)	–	May 2018	May 2025
Long Term Incentive Plan (2016 grant)	10,159	–	–	10,159	May 2019	May 2026
Long Term Incentive Plan (2017 grant)	11,685	–	–	11,685	May 2020	May 2027
Long Term Incentive Plan (2018 grant)	–	11,216	–	11,216	May 2021	May 2028
D M O'Connor						
Long Term Incentive Plan (2015 grant)	16,804	–	(16,804)	–	May 2018	May 2025
Long Term Incentive Plan (2016 grant)	12,698	–	–	12,698	May 2019	May 2026
Long Term Incentive Plan (2017 grant)	15,179	–	–	15,179	May 2020	May 2027
Long Term Incentive Plan (2018 grant)	–	14,570	–	14,570	May 2021	May 2028
J A Roper						
Long Term Incentive Plan (2016 grant)	8,127	–	–	8,127	May 2019	May 2026
Long Term Incentive Plan (2017 grant)	9,737	–	–	9,737	May 2020	May 2027
Long Term Incentive Plan (2018 grant)	–	9,347	–	9,347	May 2021	May 2028

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 numbers 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.

On 4 May 2018, 35,133 options were granted, at a level representing 60% of base salary. The market price of the Company's shares at the date of grant was 1,117.5p.

For the options granted on 4 May 2018, 100% of the shares will vest given an increase of 40% in adjusted EPS* ('maximum performance') in the year to 31 December 2020 over the base year of 31 December 2017, 40% of the above shares for an increase of 33% in adjusted EPS ('target performance') and 25% of the above shares for an increase of 26% in adjusted EPS ('threshold performance'). Between those levels shares will vest on a pro rata basis. No shares will vest if threshold performance targets are not reached.

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

Share price movements during the year

This section of the Remuneration Report is not audited.

The market price of the Company's shares at the end of the financial year was 940p (2017: 1,142.5p). The range of prices for the year to 31 December 2018 was 811p to 1,290p (2017: 837.5p to 1,162.5p) per ordinary share.

Remuneration Report

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 receives benefits as a pensioner member of the Churchill Group Retirement Benefit Scheme.

Directors' service contracts

This section of the Remuneration Report is not audited.

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. D J S Taylor's service contract was signed on 6 October 2009, D M O'Connor's on 15 May 2012 and J A Roper's on 3 November 2015.

Non Executive Directors' are generally appointed on fixed term contracts. A J McWalter has signed a fixed term contract of three years' duration expiring on 18 May 2019. A D Roper and B M Hynes have fixed term contracts of one year's duration expiring on 15 August 2019 and 24 September 2019 respectively. A C Bromfield has a fixed term contract of three years' duration expiring on 1 July 2019.

Non Executive Directors contracts may normally be terminated with a notice period of three months. There are no defined contractual payments in the event of termination of a Director's service contract.

Directors' interests

This section of the Remuneration Report is not audited.

The interests of the Directors and their immediate families and family trusts at 31 December 2018 in the 10p ordinary shares of the Company were as follows:

	2018	2018
A D Roper	637,430	637,430
D J S Taylor	59,555	60,555
D M O'Connor	49,020	48,520
A J McWalter	5,000	5,000
B M Hynes	4,000	4,000
J A Roper	1,000,835	1,034,835
A C Bromfield	983	983
	1,756,823	1,791,323

A D Roper's interest in the 10p ordinary shares of the Company at 31 December 2018 represented 5.8% (2017: 5.8%) of the Company's issued share capital. J A Roper's interest in the 10p ordinary shares of the Company at 31 December 2018 represented 9.1% (2017: 9.4%) of the Company's issued share capital.

There has been no change in the interests set out above between 31 December 2018 and 26 March 2019.

Director shareholding requirements

This section of the Remuneration Report is not audited.

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

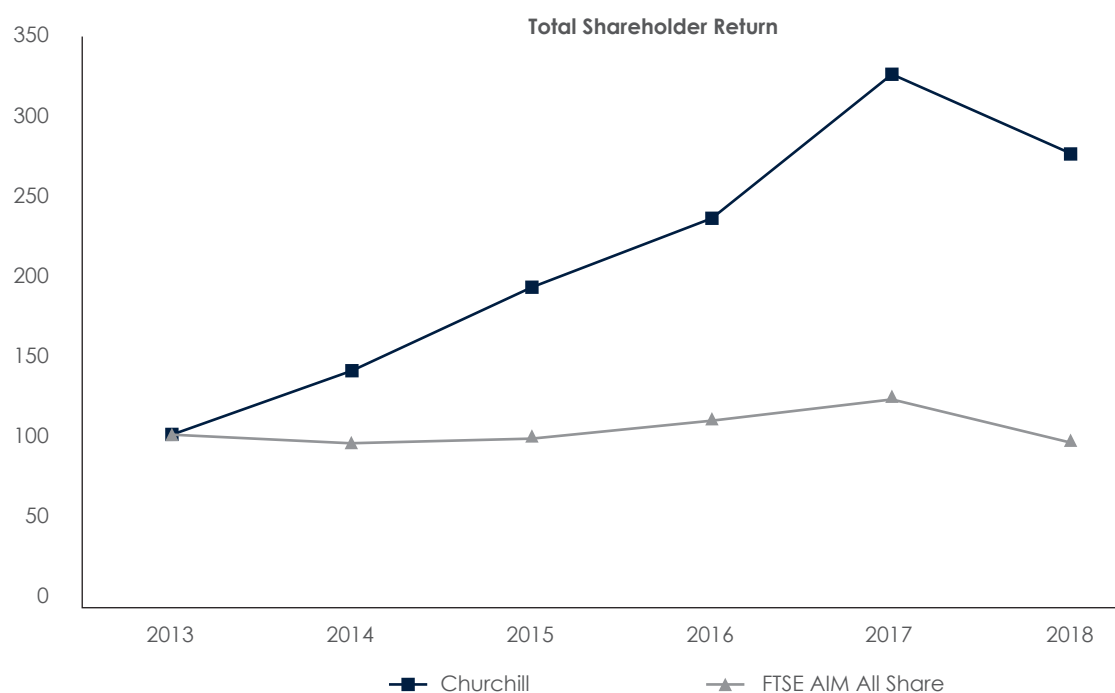
This section of the Remuneration Report is not audited.

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 2018 Annual General Meeting, the standard resolution in relation to the approval of the Report of the Remuneration Committee contained in the Annual Report for 2017 was passed; 99.5% of votes were cast in favour of the resolution, 0.2% against, with abstentions of 0.3%.

Performance Graph

This section of the Remuneration Report is not audited.



(Source: N+1 Singer)

Over a five year period the Group's total return to Shareholders has been substantially above that generated by the AIM index. Total returns from the Group in the year have fallen. Further increases to dividends have been offset by a fall in the Company's share price as equity values have generally decreased. Our overall five year return has remained positive at an average compound rate of 22% (AIM: 2%). Over the five year period total Shareholder return from the Group has been 167% whilst that achieved by the AIM index as a whole was 8%. In the year to 31 December 2018 the overall return from the Group was -16%, (AIM: -17%).

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

On behalf of the Board

A C Bromfield

Chair of the Remuneration Committee
26 March 2019

Nomination Committee Report

Annual Statement

The Board established a separate Nomination Committee during the year. The Committee has considered a number of matters since its formation 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 plan process covering the Company's Board and the Board of its principal subsidiary Churchill China (UK) Limited; and
- Review of the results of the Board evaluation process

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

A J McWalter

Chair of the Nomination Committee

26 March 2019

Audit Committee Report

Annual Statement

The Audit Committee has considered a number of matters since the beginning of 2018 including:

- Review of the annual and interim financial results and the Annual Report;
- Agreement of the Audit Plan for the year to 31 December 2018 including the scope of work to be carried out;
- Consideration of the Report of the external auditors, PricewaterhouseCoopers LLP, to the Audit Committee;
- Consideration of a number of detailed financial and disclosure areas including the effect of changes in the operation of the Group on segmental disclosures, the procedures used to value inventory and the potential impact of changes to accounting standards in respect of revenue recognition, financial instruments and leased assets on the Group's financial statements; and
- Review of the independence, effectiveness and level of fees to be paid to the external auditors.

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 Audit Committee has assessed the Group's accounting policies and procedures in relation to the valuation of inventory, a key area of focus for the business. The value of inventory at 31 December 2018 was £9.9m (2017: £9.8m). 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
26 March 2019

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 2018 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- 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 and Financial Statements (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 December 2018; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement, 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



- Overall group materiality: £438,000 (2017: £387,000), based on 5% of profit before tax.
- Overall company materiality: £114,000 (2017: £96,000), based on 1% of total assets.
- We conducted a full scope audit of all UK statutory entities which make up the consolidated results, accounting for 98% of consolidated revenue, 98% of profit before tax and 97% of total assets.
- We audited the consolidation adjustments to group materiality to formulate the consolidated results of the group, as presented in the Annual Report.
- Inventory Valuation Method - group.

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. 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. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

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.

Key audit matter

How our audit addressed the key audit matter

Inventory Valuation Method - Group

Refer to the Audit Committee Report on page 33, the critical accounting estimates and judgements in note 3 to the accounts on page 52, and note 17 (Inventory).

We focused on this area because the group uses a standard cost approach to calculate the cost of inventories throughout the year which involves elements of judgement. The group then ensures that this standard cost is materially appropriate by comparing the standard cost against actual costs as recorded in production.

In addition, the Net Realisable Value (NRV) of the products within inventory at the period end is evaluated to ensure that the valuation is appropriately stated at the lower of cost or NRV.

We performed audit procedures to test the method of calculating standard cost. We compared the respective elements of this standard cost with actual costs incurred based on underlying management information to ensure there was no material difference. We checked the arithmetical accuracy of the calculations within the standard costing basis.

We checked that the overheads absorbed were directly attributable costs such as direct materials, direct labour and overheads. We also checked production levels to ensure inefficiencies were not absorbed.

On a sample basis, we tested that the valuation of inventory is stated at the lower of cost or NRV.

No issues were noted from our testing.

We determined that there were no key audit matters applicable to the company to communicate in our report.

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 with one immaterial component in the US. The group financial statements are predominantly a consolidation of four UK statutory entities, comprising the group's main trading entity Churchill China (UK) Limited, the plc holding company, Churchill China plc, Churchill Ceramics UK Limited and a dormant subsidiary, James Broadhurst & Sons Limited. Each of these subsidiaries are subject to their own financial statements audit.

In establishing the overall approach to the group audit we have allocated materiality across the components 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.

As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

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:

	Group financial statements	Company financial statements
Overall materiality	£438,000 (2017: £387,000).	£114,000 (2017: £96,000).
How we determined it	5% of profit before tax.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.	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 between £114,000 and £416,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £20,000 (Group audit) (2017: £18,000) and £5,000 (Company audit) (2017: £4,500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report to the members of Churchill China plc

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2018 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 set out on page 22, 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.

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 received 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
26 March 2019

Consolidated income statement

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Revenue	4	57,479	53,530
Operating profit before exceptional items	5	9,237	7,460
Exceptional items	5	(541)	315
Operating profit	5	8,696	7,775
Share of results of associate company	15	185	159
Finance income	8	110	66
Finance costs	8	(144)	(225)
Profit before exceptional items and income tax		9,388	7,460
Exceptional items	5	(541)	315
Profit before income tax		8,847	7,775
Income tax expense	10	(1,649)	(1,361)
Profit for the year attributable to owners of the Company		7,198	6,414
Adjusted earnings per ordinary share	11	69.6p	55.3p
Diluted adjusted earnings per ordinary share	11	69.0p	54.8p
Basic earnings per ordinary share	11	65.6p	58.4p
Diluted earnings per share	11	65.0p	57.9p

All of the above figures relate to continuing operations.

The notes on pages 46 to 68 are an integral part of these consolidated financial statements.

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 £4,693,000 (2017: £3,332,000).

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	2018 £'000	2017 £'000
Other comprehensive (expense)/income		
Items that will not be reclassified to profit and loss:		
Remeasurements of post employment benefit obligations net of tax	(175)	1,344
Items that may be reclassified subsequently to profit and loss:		
Currency translation differences	23	(33)
Other comprehensive (expense)/income for the year	(152)	1,311
Profit for the year	7,198	6,414
Total comprehensive income for the year	7,046	7,725
Attributable to:		
Equity holders of the Company	7,046	7,725

Amounts in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 10.

The Company has no recognised gains and losses other than those included in its profit and loss account and therefore no separate Statement of Comprehensive Income has been presented.

Consolidated balance sheet

as at 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Non current assets			
Property, plant and equipment	13	14,847	14,542
Intangible assets	14	91	101
Investment in associate	15	1,732	1,547
Deferred income tax assets	21	1,107	1,197
		17,777	17,387
Current assets			
Inventories	17	9,911	9,816
Trade and other receivables	18	9,719	8,650
Other financial assets	19	3,001	3,000
Cash and cash equivalents		14,380	12,577
		37,011	34,043
Total assets		54,788	51,430
Liabilities			
Current liabilities			
Trade and other payables	20	(9,561)	(10,024)
Current income tax liabilities		(1,063)	(831)
		(10,624)	(10,855)
Non current liabilities			
Deferred income tax liabilities	21	(754)	(775)
Retirement benefit obligations	22	(5,443)	(5,907)
Total liabilities		(16,821)	(17,537)
Net assets		37,967	33,893
Equity attributable to owners of the Company			
Issued share capital	23	1,103	1,103
Share premium account	23	2,348	2,348
Treasury shares	24	(729)	(579)
Other reserves	25	1,703	1,565
Retained earnings	26	33,542	29,456
Total equity		37,967	33,893

The notes on pages 46 to 48 are an integral part of these consolidated financial statements.

The financial statements on pages 38 to 68 were approved by the Board of Directors on 26 March 2019 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 2018

	Note	2018 £'000	2017 £'000
Assets			
Non current assets			
Investment in associate	15	1,106	921
Investments in subsidiaries	16	2,198	2,195
Deferred income tax assets	21	88	101
		3,392	3,217
Current assets			
Trade and other receivables: non current	18	7,718	6,130
Trade and other receivables: current	18	220	206
Cash at bank and in hand		80	113
		8,018	6,449
Current liabilities			
Trade and other payables	20	(120)	(97)
Net current assets		7,898	6,352
Total assets less current liabilities		11,290	9,569
Net assets		11,290	9,569
Equity attributable to owners of the Company			
Issued share capital	23	1,103	1,103
Share premium account	23	2,348	2,348
Treasury shares	24	(729)	(579)
Other reserves	25	416	291
Retained earnings	26	8,152	6,406
Total equity		11,290	9,569

The notes on pages 46 to 48 are an integral part of these financial statements.

The financial statements on pages 38 to 68 were approved by the Board of Directors on 26 March 2019 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 £4,693,000 (2017: £3,332,000).

Consolidated statement of changes in equity

for the year ended 31 December 2018

	Retained earnings £'000	Issued share capital £'000	Share premium account £'000	Treasury shares £'000	Other reserves £'000	Total equity £'000
Balance at 1 January 2017	24,205	1,103	2,348	(575)	1,544	28,625
Comprehensive Income:						
Profit for the year	6,414	–	–	–	–	6,414
Other comprehensive income/(expense):						
Depreciation transfer – gross	12	–	–	–	(12)	–
Depreciation transfer – tax	(2)	–	–	–	2	–
Re-measurement of post employment benefit obligations – net of tax	1,344	–	–	–	–	1,344
Currency translation	–	–	–	–	(33)	(33)
Total comprehensive income	7,768	–	–	–	(43)	7,725
Transactions with owners						
Dividends relating to 2016 and 2017 (note 12)	(2,433)	–	–	–	–	(2,433)
Proceeds of share issue	–	–	–	3	–	3
Share based payment	123	–	–	–	64	187
Deferred tax – share based payment	57	–	–	–	–	57
Treasury shares (note 24)	(264)	–	–	(7)	–	(271)
Total transactions with owners	(2,517)	–	–	(4)	64	(2,457)
Balance at 31 December 2017	29,456	1,103	2,348	(579)	1,565	33,893
Comprehensive Income:						
Profit for the year	7,198	–	–	–	–	7,198
Other comprehensive income/(expense):						
Depreciation transfer – gross	12	–	–	–	(12)	–
Depreciation transfer – tax	(2)	–	–	–	2	–
Re-measurement of post employment benefit obligations – net of tax	(175)	–	–	–	–	(175)
Currency translation	–	–	–	–	23	23
Total comprehensive income	7,033	–	–	–	13	7,046
Transactions with owners						
Dividends relating to 2017 and 2018 (note 12)	(2,840)	–	–	–	–	(2,840)
Proceeds of share issue	–	–	–	3	–	3
Share based payment	137	–	–	–	125	262
Deferred tax – share based payment	(9)	–	–	–	–	(9)
Treasury shares (note 24)	(235)	–	–	(153)	–	(388)
Total transactions with owners	(2,947)	–	–	(150)	125	(2,972)
Balance at 31 December 2018	33,542	1,103	2,348	(729)	1,703	37,967

Company statement of changes in equity

for the year ended 31 December 2018

	Retained earnings £'000	Issued share capital £'000	Share premium account £'000	Treasury shares £'000	Other reserves £'000	Total equity £'000
Balance at 1 January 2017	5,591	1,103	2,348	(575)	227	8,694
Comprehensive Income:						
Profit for the year	3,332	–	–	–	–	3,332
Total comprehensive income	3,332	–	–	–	–	3,332
Transactions with owners						
Dividends relating to 2016 and 2017 (note 12)	(2,433)	–	–	–	–	(2,433)
Proceeds of share issue	–	–	–	3	–	3
Share based payment	123	–	–	–	64	187
Deferred tax – share based payment	57	–	–	–	–	57
Treasury shares (note 24)	(264)	–	–	(7)	–	(271)
Total transactions with owners	(2,517)	–	–	(4)	64	(2,457)
Balance at 31 December 2017	6,406	1,103	2,348	(579)	291	9,569
Comprehensive Income:						
Profit for the year	4,693	–	–	–	–	4,693
Total comprehensive income	4,693	–	–	–	–	4,693
Transactions with owners						
Dividends relating to 2017 and 2018 (note 12)	(2,840)	–	–	–	–	(2,840)
Proceeds of share issue	–	–	–	3	–	3
Share based payment	137	–	–	–	125	262
Deferred tax – share based payment	(9)	–	–	–	–	(9)
Treasury shares (note 24)	(235)	–	–	(153)	–	(388)
Total transactions with owners	(2,947)	–	–	(150)	125	(2,972)
Balance at 31 December 2018	8,152	1,103	2,348	(729)	416	11,290

Consolidated cash flow statement

for the year ended 31 December 2018

	2018 £'000	2017 £'000
Cash flows from operating activities		
Cash generated from operations (see page 45)	8,260	7,743
Interest received*	110	66
Interest paid	(1)	–
Income tax paid	(1,321)	(1,198)
Net cash generated from operating activities	7,048	6,611
Cash flows from investing activities		
Purchases of property, plant and equipment	(2,042)	(2,155)
Proceeds on disposal of property, plant and equipment	80	1,139
Purchases of intangible assets	(58)	(54)
Net cash used in investing activities	(2,020)	(1,070)
Cash flows from financing activities		
Issue of ordinary shares	3	3
Purchase of treasury shares	(388)	(271)
Dividends paid	(2,840)	(2,433)
Net (purchase)/sale of other financial assets	(1)	5
Net cash used in financing activities	(3,226)	(2,696)
Net increase in cash and cash equivalents	1,802	2,845
Cash and cash equivalents at the beginning of the year	12,577	9,734
Exchange gain on cash and cash equivalents	1	(2)
Cash and cash equivalents at the end of the year	14,380	12,577

* Conventionally interest received is included under the heading 'Investing activities'; however, the Directors believe that as the Group holds cash in support of operating activities it should be disclosed as part of cash generated from operating activities.

Reconciliation of operating profit to net cash inflow from operating activities

	2018 £'000	2017 £'000
Continuing operating activities		
Operating profit	8,696	7,775
Adjustments for:		
Depreciation and amortisation	1,725	1,621
Gain on disposal of property, plant and equipment	(91)	(317)
Charge for share based payments	262	187
Defined benefit pension cash contribution (see note 22)	(1,430)	(1,430)
Pension current service charge – non cash exceptional item	611	–
Changes in working capital:		
Inventory	(95)	(714)
Trade and other receivables	(1,039)	785
Trade and other payables	(379)	(164)
Net cash inflow from operations	8,260	7,743

Notes to the financial statements

for the year ended 31 December 2018

1. Summary of significant accounting policies

The consolidated financial statements of Churchill China plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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 3.

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

After making 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.

The Group and the Company therefore continue to adopt the going concern basis in preparing their consolidated financial statements.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on 1 January 2018, which has been adopted in preparing the Group's consolidated financial statements.

IFRS 9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

The Group uses forward time option contracts to manage hedge currency exposures rather than more complex financial instruments. As these are relatively simple instruments with a high level of certainty as to their value there has been no material change to the classification or measurement of the effect of these instruments compared to the figures and disclosures previously required in the financial statements.

The Group carries trade and other receivables as a normal part of its business operations. IFRS 9 clarifies the requirement to provide for expected losses on underperforming receivables. The Group has reviewed the impact on IFRS 9 on its provisioning policy, which has not resulted in any material change to classification or measurement of trade and other receivables. The Group maintains credit insurance on a proportion of its trade receivables and operates on secured terms in relation to further balances. Further details of the Group's provisioning policy are given in note 18.

IFRS 9 has had no material impact on the recognition, classification or measurement on the Group's results for the year ending 31 December 2018.

IFRS 15, 'Revenue from contracts with customers' outlines the principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The Group sells tangible products on a point in time basis and as such it is generally straightforward to recognise when a sale has been completed. There is some complexity in relation to the operation of volume related retrospective rebates, forward sale discount structures, other discounts and rebates, warranty claims and customers' limited rights to return unsold product. The Group has well-established systems to manage and collate exposure in these areas and provides appropriate amounts based on contractual liability and expected costs. As such, there has been no material impact on the Group's results for the year ending 31 December 2018.

IFRS 15 also impacts the presentation of assets and liabilities which relate to the customer contracts. The financial statements are required to provide enough information to determine where the Group has unconditional rights to payments and receipts (e.g. Trade Receivables/Payables) or conditional rights to payment and receipts, which are deemed to be contract assets or liabilities which are to be presented separately. Following review of the standard, there has been no impact on the presentation of asset or liabilities.

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.

(b) New standards and interpretations not yet adopted

IFRS 16 'Leases' replaces IAS 17 'Leases' and is effective for accounting periods beginning on or after 1 January 2019. IFRS 16 addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of the financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is the majority of operating leases will be accounted for on balance sheet for lessees, with exception of low value or short term assets. The Group has assessed the impact of the new standard and based on the Group's leases and as at 31 December 2018, an asset and corresponding lease liability would have been recognised of £0.3m respectively. The impact on the Income Statement would have been immaterial on both measurement and classification had the Group adopted the new standard early.

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.

1. Summary of significant accounting policies continued

Basis of consolidation

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

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

(a) 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.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associate's post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in its associate is impaired. If this is the case, the Group calculates the impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount within 'share of results of associated company' in the Income Statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution in gains and losses arising in investments in associates are recognised in the income statement.

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

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, rebates and sales related taxes. Sales of goods are recognised when goods have been delivered and control in those goods has passed. Discounts and rebates are recognised at their anticipated level as soon as any liability is expected to arise and are deducted from gross revenue.

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 Group's right to receive payment has been established.

Leases

Management review new leases and classify them as operating or finance leases in accordance with the balance of risk and reward between lessee and the lessor. Lease payments made under operating leases are charged to the Income Statement on a straight line basis over the term of the lease.

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.

Notes to the financial statements

continued

1. Summary of significant accounting policies continued

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).

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.

1. Summary of significant accounting policies continued

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.

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

Neither the Group or 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.

Available for sale financial assets

Available for sale financial assets are non derivatives that are either designated in this category or not classified to any of the other financial asset categories. They are included in non-current assets unless the Directors intend to dispose of the investment within twelve months of the balance sheet date.

At each reporting date the Directors assess whether there is an indication 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.

Notes to the financial statements

continued

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.

Non current assets held for sale

Non current assets are classified as being held for sale when their value is expected to be recovered through disposal rather than continuing usage within the business and when the future sale is considered to be highly probable. Management must be committed to sale which should be expected to be completed to qualify for recognition as a completed sale within one year from the date of classification. Non current assets are measured at the lower of carrying value and fair value less disposal costs, and are no longer depreciated.

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.

Parent Company significant accounting policies

The Company financial statements are prepared under FRS 101. The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. 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.

Cash flow statement

The Company is not required to produce a cash flow statement in relation to its operations as one is produced for the consolidated Group of companies.

Other

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

2. 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.

2. Financial risk management continued

(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 2018, if Sterling had strengthened/weakened by 5% against the US dollar with all other variables held constant, post tax profit for the year would have been £97,000 (2017: £100,000) lower/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 (2017: £20,000) lower/higher mainly as a result of differences in the translation of US dollar investments in subsidiary undertakings. If Sterling had strengthened/weakened by 5% against the Euro with all other variables held constant, post tax profit for the year would have been £642,000 (2017: £544,000) lower/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 2018, had the interest rates achieved been 10% higher with all other variables held constant then post tax profit for the year would have been £10,000 (2017: £7,000) higher. Other components of equity would have been unchanged.

(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. For banks with which the Group places significant balances on deposit, only independently rated parties with a minimum rating of 'A-' are accepted.

Cash and cash equivalents are as follows:

	Credit rating	2018 £'000	2017 £'000
Lloyds Bank plc	Aa3	11,295	11,730
Santander UK plc	Aa3	3,039	780
Other	Min A	46	67
		14,380	12,577

Other financial assets are as follows:

	Credit rating	2018 £'000	2017 £'000
Lloyds Bank plc	Aa3	2,750	2,750
National Westminster Bank plc	A3	251	250
		3,001	3,000

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 18).

(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.

Notes to the financial statements

continued

2. Financial risk management continued

(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 less impairment provision of trade and other receivables and trade and other payables are assumed to approximate their fair values.

3. 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

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 £266,000. 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 £194,000.

(b) Pension benefits

The present value of the pension obligations depends 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.

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 22.

4. Segmental analysis

	2018 £'000	2017 £'000
Market segment – Revenue		
Hospitality	52,357	47,395
Retail	5,122	6,135
	57,479	53,530
	2018 £'000	2017 £'000
Geographical segment – Revenue		
United Kingdom	23,008	24,016
Rest of Europe	21,306	17,688
North America	6,734	6,470
Rest of the World	6,431	5,356
	57,479	53,530

4. Segmental analysis continued

The total assets of the business are allocated as follows:

United Kingdom £54,037,000 (2017: £50,709,000), Rest of Europe £56,000 (2017: £56,000), North America £686,000 (2017: £656,000), Rest of the World £9,000 (2017: £9,000).

Capital expenditure was made as follows:

United Kingdom £2,079,000 (2017: £2,133,000), Europe £nil (2017: £nil).

5. Expenses by nature

	2018 £'000	2017 £'000
Changes in inventories of finished goods and work in progress	(107)	(720)
Raw materials used	4,736	4,448
Purchase of goods for resale	4,744	5,128
Employee benefit expense (note 7)	21,146	20,195
Pension equalisation charges - exceptional	611	–
Other external charges	16,131	15,297
Depreciation and amortisation charges	1,725	1,621
Profit on disposal of property, plant and equipment	(21)	(2)
Profit on disposal of property, plant and equipment - exceptional	(70)	(315)
Foreign exchange gain/(loss)	(112)	103
Total cost of sales, distribution costs and administrative expenses	48,783	45,755

During the year, changes to the law in relation to the calculation of Guaranteed Minimum Pensions ('GMPs') required that defined benefit pension schemes must equalise the GMP benefits between men and women. The Churchill Group Retirement Benefit Scheme includes such benefits and as such a one off sum of £611,000 has been provided for in 2018 reflecting the cumulative effect of these changes. Given the size and nature of this adjustment it has been treated as exceptional. A related deferred tax credit of £104,000 has also been treated as exceptional. Additionally sums previously provided for costs relating to the disposal of property which are no longer required have been released, generating an exceptional credit to profit of £70,000.

In 2017 the Group disposed of surplus property at Whieldon Road, Stoke on Trent for a total consideration of £1,100,000. The profit arising on this sale of £315,000 was treated as exceptional given its size and nature. A deferred tax credit of £28,000 arising on the sale was also been treated as exceptional.

6. Average number of people employed

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

	2018 Number	2017 Number
By activity		
Production and warehousing	430	424
Sales and administration	201	194
	631	618

The Company had no employees other than Directors (2017: none).

7. Employee benefit expense

	2018 £'000	2017 £'000
Staff costs (for the employees shown in note 6)		
Wages and salaries	18,367	17,539
Social security costs	1,717	1,686
Defined contribution pension cost (see note 22)	563	528
Other pension costs (see note 22)	237	255
Share options granted to Directors and employees (see note 23)	262	187
	21,146	20,195
Defined benefit pension cost – exceptional (see note 22)	611	–
	21,757	20,195

Notes to the financial statements

continued

7. Employee benefit expense continued

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 (2017: nil).

8. Finance income and costs

	2018 £'000	2017 £'000
Interest income on cash and cash equivalents	110	66
Finance income	110	66
Interest on defined benefit schemes (note 22)	(143)	(225)
Other interest	(1)	–
Finance costs	(144)	(225)
Net finance cost	(34)	(159)

9. Auditors' remuneration

During the year the Group obtained the following services from the Company's auditor:

	2018 £'000	2017 £'000
Fees payable to the Company's auditors for the audit of the Company and consolidated financial statements (Company £3,000; 2017: £3,000)	10	10
Additional fees payable to the Company's auditors for other services:		
– The audit of the Company's subsidiaries	90	82
Total fees payable to the Group's auditors	100	92

10. Income tax expense

Group	2018 £'000	2017 £'000
Current tax – current year	1,609	1,248
– adjustment in respect of prior periods	(57)	(71)
	1,552	1,177
Deferred tax (note 21)		
Current year	97	184
Income tax expense	1,649	1,361

The Finance Act 2016 included legislation to reduce the main rate of Corporation Tax from 20% to 17% from April 2020. Deferred tax balances have been measured accordingly.

10. Income tax expense

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:

	2018 £'000	2017 £'000
Profit before income tax	8,847	7,775
Tax calculated at domestic tax rates applicable to profits in the respective countries	1,680	1,497
Expenses not deductible for tax purposes	16	18
Adjustment in respect of prior periods	(57)	(71)
Treatment of tax on share of profit of associate company	(35)	(31)
Use of previously unrecognised capital losses	–	(58)
Other	45	6
Tax charge	1,649	1,361

The weighted average applicable tax rate was 19.0% (2017: 19.25%).

During the year a credit of £37,000 (2017: charge of £275,000) in relation to deferred tax arising from actuarial gains and losses on the Group's defined benefit pension obligation and a charge of £9,000 (2017: credit of £57,000) in relation to deferred taxation on share based payments were adjusted directly within equity.

11. Earnings per ordinary share

Basic earnings per ordinary share is based on the profit after income tax and on 10,966,966 (2017: 10,964,462) ordinary shares, being the weighted average number of ordinary shares in issue during the year. Adjusted earnings per share is calculated after adjusting for the post tax effect of exceptional items (see note 5).

	2018 Pence per share	2017 Pence per share
Basic earnings per share (Based on earnings £7,198,000 (2017: £6,414,000))	65.6	58.4
Add/(less): Exceptional Items: £437,000 (2017: (£343,000))	4.0	(3.1)
Adjusted earnings per share (based on adjusted earnings £7,635,000 (2017: £6,071,000))	69.6	55.3

Diluted earnings per ordinary share is based on the profit after income tax and on 11,069,061 (2017: 11,062,013) ordinary shares, being the weighted average number of ordinary shares in issue during the year of 10,966,966 (2017: 10,964,462) increased by 102,065 (2017: 97,551) 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. Diluted adjusted earnings per share is calculated after adjusting for the post tax effect of exceptional items (see note 5).

	2018 Pence per share	2017 Pence per share
Diluted basic earnings per share (Based on earnings £7,198,000 (2017: £6,414,000))	65.0	57.9
Add/(less): Exceptional Items: £437,000 (2017: (£343,000))	4.0	(3.1)
Diluted adjusted earnings per share (based on adjusted earnings £7,635,000 (2017: £6,071,000))	69.0	54.8

Notes to the financial statements

continued

12. Dividends

The dividends paid in the year were as follows:

	2018 £'000	2017 £'000
Ordinary		
Final dividend 2017 17.2p (Final dividend 2016: 14.8p) per 10p ordinary share	1,886	1,621
Interim 2018 8.7p per 10p ordinary share paid (Interim 2017: 7.4p)	954	812
	2,840	2,433

The Directors now recommend payment of the following dividend:

Ordinary dividend		
Final dividend 2018 20.3p (2017: 17.2p) per 10p ordinary share	2,224	1,886

Dividends on treasury shares held by the Company are waived.

13. Property, plant and equipment

The Company has no property, plant and equipment (2017: none). Details of property, plant and equipment relating to the Group are as follows:

Group	Freehold land and buildings £'000	Plant £'000	Motor vehicles £'000	Fixtures and fittings £'000	Total £'000
At 1 January 2017					
Cost	13,957	21,822	864	2,759	39,402
Accumulated depreciation	(3,166)	(18,385)	(392)	(2,562)	(24,505)
Net book amount	10,791	3,437	472	197	14,897
Year ended 31 December 2017					
Opening net book amount	10,791	3,437	472	197	14,897
Additions	40	1,775	83	154	2,052
Disposals	(797)	–	(37)	–	(834)
Depreciation charge	(309)	(988)	(125)	(151)	(1,573)
Closing net book amount	9,725	4,224	393	200	14,542
At 31 December 2017					
Cost	12,898	23,600	818	1,718	40,229
Accumulated depreciation	(3,173)	(19,376)	(425)	(1,518)	(25,687)
Net book amount	9,725	4,224	393	200	14,542
Year ended 31 December 2018					
Opening net book amount	9,725	4,224	393	200	14,542
Additions	–	1,429	179	413	2,021
Disposals	–	–	(59)	–	(59)
Depreciation charge	(249)	(1,176)	(118)	(114)	(1,657)
Closing net book amount	9,476	4,478	395	499	14,847
At 31 December 2018					
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

14. Intangible assets

The Company has no intangible assets (2017: none). Details of intangible assets relating to the Group are as follows:

	Computer software £'000
Group	
At 1 January 2017	
Cost	950
Accumulated amortisation	(861)
Net book amount	89
Year ended 31 December 2017	
Opening net book amount	89
Additions	60
Amortisation charge	(48)
Closing net book amount	101
At 31 December 2017	
Cost	925
Accumulated amortisation	(824)
Net book amount	101
Year ended 31 December 2018	
Opening net book amount	101
Additions	58
Amortisation charge	(68)
Closing net book amount	91
At 31 December 2018	
Cost	983
Accumulated amortisation	(892)
Net book amount	91

15. Investment in associate

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Cost				
At 1 January	1,974	1,815	921	762
Share of profit	185	159	185	159
At 31 December	2,159	1,974	1,106	921
Impairment				
At 1 January and 31 December	427	427	–	–
Net book value				
Closing net book amount	1,732	1,547	1,106	921

The investment in associate represents a holding of 46.1% (2017: 41.7%) of the issued £1 ordinary shares of Furlong Mills Limited, a company registered in England, whose principal activity is that of a potter's miller.

During the year ended 31 December 2018 the Group purchased 4.4% of the issued £1 ordinary shares of Furlong Mills Limited from another Shareholder, resulting in the holding of 46.1% at the reporting date.

Following the reporting period, on 25 February 2019 the Group purchased a further 9.5% of the issued £1 shares from another Shareholder, increasing the Group's shareholding to 55.6%. (See note 30 for additional details.)

Notes to the financial statements

continued

15. Investment in associate continued

	2018 £'000	2017 £'000
Share of associate's assets	3,132	2,842
Share of associate's liabilities	(878)	(791)
Share of associate's net assets	2,254	2,051

The total revenue of Furlong Mills Limited for its year ended 31 December 2018 was £9,670,000 (2017: £8,725,000) and profit before tax was £619,000 (2017: £612,000). During the year the Group purchased raw materials to a value of £3,274,000 (2017: £3,040,000) from Furlong Mills Limited. Amounts owed to Furlong Mills Limited at 31 December 2018 were £114,000 (2017: £148,000) (see note 20).

The difference between the carrying value of the Group's interest in associate and the share of associate's net assets represents an impairment charged in the Group's financial statements and adjustments in relation to accounting policies. This impairment reflects the Board's view of the recoverable amount of the investment calculated using a discounted cash flow model. Expected cash flows from the investment have been discounted at a rate of 9.5% (2017: 9.5%).

In the Group's consolidated and Company financial statements the investment is accounted for on the equity basis.

16. Investment in subsidiaries

Company

	2018 £'000	2017 £'000
Cost or valuation		
At 1 January and 31 December	2,627	2,627
Impairment		
At 1 January and 31 December	432	432
Net book value		
At 31 December	2,198	2,195

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
Churchill Ceramics (UK) Limited*	England and Wales	Ordinary	100%	Provision of management and property services within the Group
James Broadhurst & Sons Limited*	England and Wales	Ordinary	100%	Provision of management and property services within the Group
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 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
Churchill China (HK) Limited [§]	Hong Kong	Ordinary	100%	Dormant

The Directors believe the carrying value of subsidiaries is supported by their underlying net asset values.

* 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

[§] Registered address: 18/F Edinburgh Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong

17. Inventories

The Company has no inventory (2017: none). Details of inventory relating to the Group are as follows:

	2018 £'000	2017 £'000
Raw materials	53	64
Work in progress	1,532	1,305
Finished goods	8,326	8,447
	9,911	9,816

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 3.

The cost of inventories recognised as an expense and included in the income statements amounted to £29,841,000 (2017: £27,318,000). The movement in impairment provisions against the value of inventory in relation to slow moving and obsolete items during the year was an increase of £872,000 (2017: decrease of £164,000).

18. Trade and other receivables

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade receivables	9,715	8,590	–	–
Less: provision for impairment of trade receivables	(308)	(269)	–	–
Trade receivables – net	9,407	8,321	–	–
Prepayments	309	329	–	–
Receivables from related parties (note 28)	–	–	7,938	6,336
	9,719	8,650	7,938	6,336
Less non-current portion: loans to related parties	–	–	7,718	6,130
Current portion	9,719	8,650	220	206

All non current receivables are due within five years from the balance sheet date.

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 2018, trade receivables of £7,561,000 (2017: £6,332,000) were fully performing.

As of 31 December 2018, trade receivables of £558,000 (2017: £713,000) were past due but not impaired. The ageing of these receivables is as follows:

	2018 £'000	2017 £'000
Up to 3 months	543	694
3 to 6 months	8	13
Over 6 months	7	6
	558	713

As of 31 December 2018 trade receivables with a gross value of £1,596,000 (2017: £1,605,000) were impaired and provided for. The amount of provision for 31 December 2018 was £308,000 (2017: £269,000). 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:

	2018 £'000	2017 £'000
Up to 3 months	1,589	1,596
3 to 6 months	–	6
Over 6 months	7	3
	1,596	1,605

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

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continued

18. Trade and other receivables continued

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

	2018 £'000	2017 £'000
At 1 January	269	379
Increase/(decrease) in provision for receivables impairment	28	(125)
Written off during the year	11	15
At 31 December	308	269

The creation and release of provision for impaired receivables have been included in 'other external charges' in the income statement (note 5). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

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

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

	2018 £'000	2017 £'000
Pounds	5,811	5,671
Euros	3,012	2,092
US dollars	896	887
	9,719	8,650

During the year the Group realised gains of £29,000 (2017: losses of £61,000) on settled forward option contracts that have been recognised in the Income Statement and as at 31 December held forward exchange contracts for the sale of Euro of £8,875,000 (2017: £5,907,000) and the sale of US dollars of £500,000 (2017: £595,000). These contracts are held at their fair value with a loss of £42,000 (2017: loss of £42,000) recognised in relation to the contracts outstanding at the year end.

Company

As of 31 December 2018, Company trade receivables of £nil (2017: £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:

	2018 £'000	2017 £'000
Pounds	7,827	6,238
US dollars	111	98
	7,938	6,336

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

19. Other financial assets

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Other financial assets	3,001	3,000	–	–

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

20. Trade and other payables

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade payables	3,823	3,096	–	–
Amounts due to related parties	114	148	13	13
Social security and other taxes	635	1,126	91	82
Accrued expenses	4,989	5,654	16	2
	9,561	10,024	120	97

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

21. 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	2018 £'000	2017 £'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	777	878
– Deferred tax asset to be recovered within 12 months	330	319
	1,107	1,197
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	(715)	(720)
– Deferred tax liabilities to be recovered within 12 months	(39)	(55)
	(754)	(775)
Deferred tax asset (net)	353	422

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

	2018 £'000	2017 £'000
At 1 January	422	824
Income statement charge (note 10)	(97)	(184)
Tax credited/(charged) directly to equity (note 26)	28	(218)
At 31 December	353	422

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	Total £'000
Deferred tax liabilities			
At 1 January 2017	638	196	834
Credited to the income statement	(57)	(2)	(59)
At 31 December 2017	581	194	775
Credited to the income statement	(19)	(2)	(21)
At 31 December 2018	562	192	754

	Accelerated tax depreciation	Retirement benefit obligation	Other	Total
Deferred tax assets				
At 1 January 2017	(95)	(1,484)	(79)	(1,658)
Charged to the income statement	10	205	28	243
Charged/(credited) directly to equity	–	275	(57)	218
At 31 December 2017	(85)	(1,004)	(108)	(1,197)
Charged to the income statement	(1)	115	4	118
(Credited)/charged directly to equity	–	(37)	9	(28)
At 31 December 2018	(86)	(926)	(95)	(1,107)

Notes to the financial statements

continued

21. Deferred income tax continued

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

	2018 £'000	2017 £'000
Fair value reserves in Shareholders' equity:		
Tax on re-measurement of defined pension benefits	(37)	275
Tax on share based payments	9	(57)
	(28)	218

Deferred income tax of £2,000 (2017: £2,000) was transferred from other reserves (note 25) to retained earnings (note 26). 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 £866,000 (2017: £866,000) in respect of capital losses amounting to £5,092,000 (2017: £5,092,000) that can be carried forward against future capital gains.

Company

Deferred tax assets of £88,000 (2017: £101,000) are recognised relating to short term timing differences.

22. Retirement benefit obligations

	2018 £'000	2017 £'000
Balance sheet obligations		
Pension benefits	5,443	5,907
Income statement charge		
Pension benefits	800	783
Pension benefits: Past service charge - exceptional	611	–
Finance costs	143	225

The Group operates four principal pension schemes: a funded pension scheme, the Churchill Group Retirement Benefit Scheme, providing benefits based on final pensionable salary which was closed to new entrants in 1999 and to which the accrual of future benefits ceased on 31 March 2006; the Churchill China 1999 Pension Scheme; the Churchill China 2006 Group Personal Pension Plan; and the Churchill section of the Peoples Pension, an auto enrolment scheme. The last three schemes are defined contribution schemes providing benefits based on contributions paid.

The assets of the schemes are held separately from those of the Group. The total pension cost for the Group was £1,411,000 (2017: £783,000) including an exceptional charge of £611,000 (2017: nil). Of this cost, £611,000 (2017: £nil) related to the Churchill Group Retirement Benefit Scheme, £312,000 (2017: £288,000) was in respect of the Churchill China 1999 Pension Scheme, £184,000 (2017: £205,000) was in respect of the Churchill China 2006 Group Personal Pension Scheme and £67,000 (2017: £35,000) was in respect of UK Auto Enrolment schemes. The balance of cost was incurred in respect of overseas and other pension arrangements. At the year end amounts due to pension funds in respect of Company contributions were £28,000 (2017: £28,000).

During the year, changes to the law in relation to the calculation of Guaranteed Minimum Pensions ('GMPs') required that defined benefit pension schemes must equalise the GMP benefits between men and women. The Churchill Group Retirement Benefit Scheme includes such benefits and as such a one-off sum of £611,000 has been provided for in 2018 reflecting the cumulative effect of these changes. Given the size and nature of this adjustment it has been treated as exceptional. A related deferred tax credit of £104,000 has also been treated as exceptional.

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 £1,430,000 (2017: £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 in respect of the amortisation of past service deficits, for the following seven years to 2027.

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 dependent 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. In 2017 dividends paid increased by 17% and have increased by 17% in 2018.

22. Retirement benefit obligations continued

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

	2018 £'000	2017 £'000
Present value of funded obligations	47,998	51,125
Fair value of plan assets	(42,555)	(45,218)
Liability in balance sheet	5,443	5,907

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

	2018 £'000	2017 £'000
At 1 January	51,125	50,381
Interest cost	1,321	1,391
Past service cost - exceptional	611	–
Experience losses/(gains) on liabilities	70	(1)
Re-measurements from change in demographic and financial assumptions	(3,871)	781
Benefits paid	(1,258)	(1,427)
At 31 December	47,998	51,125

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

	2018 £'000	2017 £'000
At 1 January	45,218	41,650
Expected return on plan assets	1,178	1,166
Re-measurement of return on plan assets excluding amounts included in interest expense	(4,013)	2,399
Employer contributions	1,430	1,430
Benefits paid	(1,258)	(1,427)
At 31 December	42,555	45,218

Plan assets are comprised as follows:

	2018 £'000		2017 £'000	
Equity investment funds	19,043	45%	23,081	51%
Absolute return funds	5,616	13%	6,165	14%
Other investment funds	1,876	4%	2,027	4%
Debt investments	13,998	33%	11,725	26%
Cash and cash equivalents	2,022	5%	2,220	5%
	42,555		45,218	

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:

	2018 £'000	2017 £'000
Interest cost on defined benefit plans	143	225

The actual return on plan assets was a loss of £2,835,000 (2017: gain of £3,565,000).

Notes to the financial statements

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22. Retirement benefit obligations continued

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
At 31 December					
Present value of funded obligations	47,998	51,125	50,381	41,808	42,731
Fair value of plan assets	(42,555)	(45,218)	(41,650)	(37,971)	(38,057)
Liability in balance sheet	5,443	5,907	8,731	3,837	4,674
Experience adjustments on scheme assets:					
Amount	(4,013)	2,399	2,016	(678)	814
Experience adjustments on scheme liabilities:					
Amount	(70)	1	703	1,006	395

Re-measurement gains and losses

Re-measurement gains of £142,000 (2017: gains of £1,619,000) 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 £16,837,000 (2017: £16,625,000).

The principal actuarial assumptions used were as follows:

Pension benefits

	2018 % per annum	2017 % per annum
Discount rate	2.95%	2.6%
Inflation rate – RPI	3.2%	3.3%
– CPI	2.2%	2.3%
Rate of increase of pensions in payment	2.2%	2.3%
Rate of increase of deferred pensions	2.2%	2.3%

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:

	2018 Years	2017 Years
Male	20.9	20.8
Female	22.9	22.9

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

	2018 Years	2017 Years
Male	22.6	22.5
Female	24.8	24.7

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

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' 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.

22. Retirement benefit obligations continued

Life expectancy

The plans' 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 2.75% would be to increase scheme liabilities by £2,093,000 (4.4%).

The effect of a 0.25% increase in CPI inflation to 2.45% would increase scheme liabilities by £1,025,000 (3.6%).

The effect of a 1 year increase to life expectancy would increase scheme liabilities by £1,665,000 (3.5%).

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

23. Issued share capital and share premium account

Group and Company	Number of shares 000s	Ordinary shares £'000	Share premium £'000
At 1 January 2018 and 31 December 2018	11,030	1,103	2,348

The total authorised number of ordinary shares is 14,300,000 (2017: 14,300,000) with a par value of 10p (2017: 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 2018	5 May 2017	16 May 2016	8 May 2015
Share price at grant date	1,117.5p	1047.5p	780p	547.5p
Exercise price	10p	10p	10p	10p
Number of employees	3	3	3	2
Shares under option	35,133	36,601	30,984	30,927
Vesting period (years)	3	3	3	3
Expected volatility	10%	15%	15%	15%
Option life (years)	10	10	10	10
Expected life (years)	3	3	3	3
Risk free rate	1.4%	1.4%	1.4%	1.4%
Expected dividends expressed as a dividend yield	2.4%	2.5%	2.5%	3.0%
Fair value per option	901p	847p	643p	491p

The following options exercisable over ordinary shares were outstanding at 31 December 2018 under the Long Term Incentive Plan:

Number of shares	2018	2017	Exercise price	Date from which exercisable	Expiry date
May 2015 Grant	–	30,927	10p	May 2018	May 2025
May 2016 Grant	30,984	30,984	10p	May 2019	May 2026
May 2017 Grant	36,601	36,601	10p	May 2020	May 2027
May 2018 Grant	35,133	–	10p	May 2021	May 2028
	102,718	98,512			

Notes to the financial statements

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23. Issued share capital and share premium account continued

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 2018 is set out below.

	2018	2018	2017	2017
	Number '000	Weighted average exercise price	Number '000	Weighted average exercise price
Outstanding at 1 January	98,512	10.0p	96,062	10.0p
Granted	35,133	10.0p	36,601	10.0p
Exercised	(30,927)	10.0p	(34,151)	10.0p
Outstanding at 31 December	102,718	10.0p	98,512	10.0p
Exercisable at 31 December	–	–	–	–

There were 35,133 share options granted during the year (2017: 36,601).

	2018	2018	2018	2018	2017	2017	2017	2017
	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	102,718	1.5	8.5	10p	98,512	1.3	8.3

The weighted average share price for options exercised in the period was 10p (2017: 10p). The total charge during the year for employee share based payment plans was £263,000 (2017: £187,000) before tax, all of which related to equity settled share based payment transactions.

24. Treasury shares

Group and Company	£'000
As at 31 December 2017	579
Re-Issue of shares	(3)
Transfer to retained earnings	(235)
Purchase of own shares	388
As at 31 December 2018	729

During the year the Group re-purchased 38,000 (2017: 27,000) 10p ordinary shares and re-issued 30,927 (2017: 34,151) under employee share option schemes. The Group currently holds 74,922 (2017: 67,849) shares in Treasury.

25. Other reserves

Group

	Land and buildings revaluation £'000	Currency translation £'000	Share based payment £'000	Other reserves £'000	Total £'000
Balance at 1 January 2017	959	105	227	253	1,544
Depreciation transfer – gross	(12)	–	–	–	(12)
Depreciation transfer – tax	2	–	–	–	2
Share based payment	–	–	64	–	64
Currency translation	–	(33)	–	–	(33)
Balance at 31 December 2017	949	72	291	253	1,565
Depreciation transfer – gross	(12)	–	–	–	(12)
Depreciation transfer – tax	2	–	–	–	2
Share based payment	–	–	125	–	125
Currency translation	–	23	–	–	23
Balance at 31 December 2018	939	95	416	253	1,703

The land and buildings revaluation reserve is the reserve created when certain land and buildings were revalued in 1992. On adoption of IFRS the Group took the exemption conferred by IFRS 1 to treat this revalued amount as deemed cost on transition because it approximated to fair value at that time. The release between the revaluation reserve and retained earnings is the release to distributable reserves of the additional depreciation on revaluation.

Other than the revaluation reserve, there are no restrictions on the distribution of the reserves.

25. Other reserves continued

Company

Other reserves of £416,000 (2017: £291,000) represent provision for share based payment as shown in the above table.

26. Retained earnings

	Group £'000	Company £'000
At 1 January 2017	24,205	5,591
Profit for the year	6,414	3,332
Dividends paid in 2017	(2,433)	(2,433)
Depreciation transfer on land and buildings net of tax	10	–
Share based payment	180	180
Transfer from Treasury Shares	(264)	(264)
Actuarial gains on retirement benefit obligations net of tax	1,344	–
At 31 December 2017	29,456	6,406
At 1 January 2018	29,456	6,406
Profit for the year	7,198	4,693
Dividends paid in 2018	(2,840)	(2,840)
Depreciation transfer on land and buildings net of tax	10	–
Share based payment	128	128
Transfer from Treasury Shares	(235)	(235)
Actuarial losses on retirement benefit obligations net of tax	(175)	–
At 31 December 2018	33,542	8,152

27. Commitments

Capital commitments

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

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Property, plant and equipment	729	460	–	–
Intangible assets: Computer software	95	41	–	–
	824	501	–	–

Operating lease commitments

The Group has financial commitments in respect of non cancellable operating leases for buildings and plant and machinery for which the payments extend over a number of years as follows:

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Payments under operating leases charged against income during the year	124	95	–	–
Future aggregate minimum commitments under non-cancellable operating leases:				
No later than one year	121	152	–	–
Later than one year and no later than five years	198	321	–	–

Notes to the financial statements

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28. Related party transactions

Details of related party transactions for the Group are shown in the Directors' Report, Remuneration Report and in the Notes to the financial statements appropriate to the type of transaction being dealt with.

The Directors do not consider the Company to have an ultimate controlling party.

Company

Details of related party transactions involving the Company were as follows:

	2018 £'000	2017 £'000
Subsidiaries		
Management charge to Churchill China, Inc	10	7
Interest received from Churchill China (UK) Limited	–	–
Dividend received from Churchill China (UK) Limited	3,750	3,450
Dividend received from Churchill Ceramics (UK) Limited	1,056	–
Loans repaid by Churchill China (UK) Limited	(2,147)	(2,568)
Loans outstanding (mainly from Churchill China (UK) Limited)	7,926	6,323

29. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items in the accounts. All financial assets including cash and cash equivalents are classified as loans and receivables, with the exception of financial assets available for sale, in both 2018 and 2017, as disclosed in note 17.

30. Events occurring after the reporting period

On 25 February 2019 Churchill China plc acquired an additional 9.5% of the issued share capital of Furlong Mills Limited, for a total consideration of £454,000, funded from the Group's existing cash resources. This, together with the existing holding immediately prior to the transaction of 46.1%, gives the Company a majority shareholding of 55.6%. Furlong Mills Limited has previously been accounted for as an associated company and will be consolidated into the Group's accounts from the above date. In the last audited accounts of Furlong Mills Limited (to 31 December 2017), revenue was £8.6m, which included £3.0m of sales to Churchill China and profit before tax was £504,000. Net assets at 31 December 2017 were £4,856,000.

Five year financial record

	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000
Revenue	44,518	46,829	51,102	53,530	57,479
Operating profit before exceptional items	4,249	4,959	6,398	7,460	9,237
Exceptional items	–	–	–	315	(541)
Operating profit	4,249	4,959	6,398	7,775	8,696
Share of results of associate net of impairment	116	135	157	159	185
Finance cost	(48)	(80)	(40)	(159)	(34)
Profit before exceptional items and income tax	4,317	5,014	6,515	7,460	9,388
Exceptional items	–	–	–	315	(541)
Profit before income tax	4,317	5,014	6,515	7,775	8,847
Income tax expense	(901)	(928)	(1,230)	(1,361)	(1,649)
Profit for the year	3,416	4,086	5,285	6,414	7,198
Dividends paid	1,619	1,816	2,085	2,433	2,840
Net assets employed	28,406	30,925	28,625	33,893	37,967
Ratios					
Operating margin*	9.5%	10.6%	12.5%	13.9%	16.1%
Earnings before interest, tax, depreciation and amortisation (£000)*	5,876	6,454	8,114	9,081	10,941
Basic earnings per share (p)	31.2	37.3	48.2	58.4	65.6
Adjusted earnings per share (p)*	31.2	37.3	48.2	55.3	69.6

* Before exceptional items

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Churchill China plc will be held at No.1, Marlborough Way, Tunstall, Stoke-on-Trent on Friday 17 May 2019 at 12 noon for the following purposes:

To consider and, if thought fit, to pass the following resolutions which will be proposed as ordinary resolutions:

1. That the reports of the Directors and the Auditors and the Financial Statements for the year ended 31 December 2018 be received.
2. That a final dividend of 20.3p on each ordinary share be declared in respect of the year ended 31 December 2018.
3. That D J S Taylor be re-elected as a Director.
4. That J A Roper be re-elected as a Director.
5. That the Auditors, PricewaterhouseCoopers LLP, be re-appointed.
6. That the Audit Committee be authorised to fix the auditors' remuneration for the year ending 31 December 2019.
7. That the Annual Report on Remuneration for the year ended 31 December 2018 be approved.
8. That the Directors be and they are hereby authorised generally and unconditionally pursuant to section 551 of the Companies Act 2006, ('the Act'), and in substitution for any subsisting authority pursuant to that section which remains unexercised at the commencement of this meeting, which subsisting authority shall be revoked, to exercise all the powers of the Company (a) to allot shares in the Company, and (b) to grant rights to subscribe for or to convert any security into shares in the Company, ('Allotment Rights') in either case, to such persons, at such times and subject to such terms and conditions as the Directors may determine. The maximum amount of shares which may be allotted or made the subject of Allotment Rights pursuant to this authority shall be shares with an aggregate nominal value of £365,175 provided that (unless previously revoked varied or renewed) this authority shall expire at the end of the next Annual General Meeting (or, if earlier, at the close of business on 17 August 2020), save that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after such expiry.

To consider and, if thought fit, to pass the following resolutions which will be proposed as special resolutions:

9. That if resolution 8 is passed, the Directors be authorised to allot equity securities (as defined in the Act) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Act did not apply to any such allotment or sale, such authority to be limited to:
 - (i) the allotment of equity securities in connection with any rights issue or open offer (each as referred to in the London Stock Exchange's AIM Rules for Companies) or any other pre-emptive offer that is open for acceptance for a period determined by the Directors to the holders of ordinary shares on the register on any fixed record date in proportion to their holdings of ordinary shares (and, if applicable, to the holders of any other class of equity security in accordance with the rights attached to such class), subject in each case to such exclusions or other arrangements as the Directors may deem necessary or appropriate in relation to fractions of such securities, the use of more than one currency for making payments in respect of such offer, any such shares or other securities being represented by depositary receipts, treasury shares, any legal or practical problems in relation to any territory or the requirements of any regulatory body or any stock exchange; and
 - (ii) the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (i) above) up to a nominal amount of £54,776, such authority to expire at the end of the next Annual General Meeting of the Company (or, if earlier, at the close of business on 17 August 2020), but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.
10. That if resolution 8 is passed, the Directors be authorised in addition to any authority granted under resolution 9 to allot equity securities (as defined in the Act) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Act did not apply to any such allotment or sale, such authority to be:
 - (i) limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £54,776; and
 - (ii) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice, such authority to expire at the end of the next Annual General Meeting of the Company (or, if earlier, at the close of business on 17 August 2020), but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.
11. That the Directors be authorised generally and unconditionally for the purposes of Sections 693 and 701 of the Act to make market purchases (within the meaning of Section 693(4) of the Act) of ordinary shares of 10p each in the capital of the Company ('Ordinary Shares') on such terms and in such manner as the Directors of the Company may from time to time determine, provided that:
 - (i) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 1,095,525 ;
 - (ii) the minimum price which may be paid for an Ordinary Share, exclusive of all expenses, shall be 10p;
 - (iii) the maximum price which may be paid for an Ordinary Share, exclusive of all expenses, shall be an amount equal to 5 per cent above the average of the middle market quotations for an Ordinary Share as derived from the AIM section of the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which such Ordinary Share is purchased.

Unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting. The Company may prior to the expiry of the authority hereby conferred make a contract or contracts to purchase Ordinary Shares under such authority which will or may be executed wholly or partly after the expiry of such authority.

By Order of the Board

D J S Taylor

Company Secretary

Dated 16 April 2019

Registered Office

No.1, Marlborough Way

Tunstall

Stoke-on-Trent

ST6 5NZ

Registered Number 02709505

The Directors of the Company consider that all the proposals to be considered at the Annual General Meeting are in the best interests of the Company and its members as a whole and are most likely to promote the success of the Company for the benefit of its members as a whole. The Directors unanimously recommend that you vote in favour of all the proposed resolutions.

NOTES

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A member may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company. A form of proxy which may be used to make such appointment and give proxy instructions accompanies this notice. Instructions for use are shown on the form. If you do not have a form of proxy and believe that you should have one, or if you require additional forms, please contact our registrars, Equiniti, on 0371 384 2287. If calling from overseas, please call +44 (0)121 415 7047. Lines are open 8.30am – 5pm, Monday – Friday (excluding public holidays in England and Wales). To appoint more than one proxy, you may photocopy the proxy form.
2. To be valid, any form of proxy or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the offices of the Company's registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, no later than 12 noon on 15 May 2019. If you return more than one proxy appointment, that received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully.
3. The return of a completed form of proxy will not prevent a member attending the AGM and voting in person if he/she wishes to do so.
4. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
5. To be entitled to attend and vote at the AGM (and for the purpose of the determination by the Company of the votes they may cast), members must be registered in the Register of Members of the Company at 6.30pm on 15 May 2019 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting). Changes to the Register after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting. Voting at the meeting will be conducted by way of a show of hands, unless a poll is correctly called for.
6. As at 16 April 2019 (being the last practicable date prior to publication of this Notice), the Company's total issued equity share capital consists of 11,030,172 ordinary shares, carrying one vote each. The Company holds 74,922 ordinary shares in treasury. The total number of voting rights in the Company is 10,955,250.
7. Except as provided above, members who wish to communicate with the Company in relation to the AGM should do so using the following means: (1) by writing to the Company Secretary at the Registered Office address; or (2) by writing to the Registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA. No other methods of communication will be accepted. In particular, you may not use any electronic address provided either in this Notice or in any related documents for any purposes other than expressly stated.
8. Copies of the Directors' Service Contracts and the Non-executive Directors' letters of appointment will be available for inspection at the Company's Registered Office address on weekdays (Saturdays and public holidays excepted) during business hours from the date of this Notice until the conclusion of the AGM.

Notice of Annual General Meeting

continued

EXPLANATORY NOTES ON THE RESOLUTIONS

The notes on the following pages give an explanation of certain of the proposed resolutions.

1. Resolutions 3 and 4: in accordance with the Company's Articles of Association at every AGM the number of Directors nearest to, but not exceeding one-third must retire by rotation. D J S Taylor and J A Roper are retiring by rotation and resolutions 3 and 4 respectively seek approval for their re-election as a Director (D J S Taylor and J A Roper).

Biographical details for the Directors are set out on in the Directors' Report.

Each of the Directors has had a formal performance evaluation and the Board believes that each of them continues to be effective and demonstrates commitment to the role.

2. Resolution 7: this is a resolution to approve the Annual Report on Directors' Remuneration on pages 28 to 31 of the Annual Report. As an AIM listed company, the Company is not required to comply with all of the requirements in this respect under The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Company has chosen to disclose its Remuneration Policy on pages 26 to 27 of the Annual Report although the Policy is not the subject matter of Resolution 7.
3. Resolution 8 is an ordinary resolution authorising the Directors at any time prior to 17 August 2020 (or, if earlier, the conclusion of the next Annual General Meeting) to allot shares and to grant rights to subscribe for, or convert any securities into, shares up to an aggregate nominal value equivalent to approximately 1/3 of the issued share capital (excluding shares held in treasury) of the Company as at 16 April 2019. The Directors have no present intention to exercise this authority which is designed to preserve flexibility.

The number of treasury shares held by the Company as at 16 April 2019 was 74,922 which represents 0.7% of the issued share capital as at that date.

4. Resolution 9: under Section 570 of the Act, when new shares are allotted, or treasury shares are sold, for cash, they must, subject to certain limited exceptions, first be offered to existing Shareholders pro rata to their holdings. This special resolution empowers the Directors to: (a) allot shares of the Company in connection with a rights issue, open offer or other similar issue; and (b) otherwise allot shares of the Company, or sell treasury shares for cash, up to an aggregate nominal value of £54,776 (representing approximately 5% of the total issued equity share capital, excluding shares held in treasury, as at 16 April 2019) (being the last practicable date prior to the publication of this Notice) as if the pre-emption rights of Section 570 did not apply.
5. Resolution 10: this resolution additionally authorises the Directors to allot shares of the Company, or sell treasury shares for cash, up to an aggregate nominal value of £54,776 (representing approximately 5% of the total issued equity share capital, excluding shares held in treasury as at 16 April 2019) (being the last practicable date prior to the publication of this Notice) as if the pre-emption rights of section 570 did not apply provided that the proceeds of such allotment and/or sale are used only for the purposes of an acquisition or other capital investment of a kind contemplated by The Pre-emption Group's Statement of Principles. The Principles provide that specified capital investment means one or more specific capital investment related uses for the proceeds of an issuance of equity securities, in respect of which sufficient information regarding the effect of the transaction on the Company, the assets the subject of the transaction and (where appropriate) the profits attributable to them is made available to shareholders to enable them to reach an assessment of the potential return.

The Directors have no immediate plans to make use of these powers. In line with best practice, the Company confirms that it has issued 0.2% of its issued share capital (excluding shares held in treasury) on a non-pro rata basis over the last 3 years, and it confirms its intention to adhere to the provisions in the Principles regarding cumulative usage of authorities of no more than 7.5 per cent of the issued ordinary share capital (excluding shares held in treasury) within a rolling 3 year period.

The authorities granted by resolutions 9 and 10 shall cease to have effect at the conclusion of the next AGM or on 17 August 2020, whichever is the earlier.

6. Resolution 11 renews the Directors' current authority to make limited market purchases of the Company's ordinary shares. The power is limited to a maximum aggregate number of 1,095,525 ordinary shares (representing approximately 10 per cent of the issued share capital excluding shares held in treasury as at 16 April 2019 (being the last practicable date prior to publication of this Notice) and details the minimum and maximum prices that can be paid, exclusive of expenses. Any purchases of ordinary shares would be made by means of market purchase through the London Stock Exchange.

Current legislation allows companies to hold shares acquired by way of market purchase in treasury, rather than having to cancel them. The Directors may use the authority to purchase shares and hold them in treasury (and subsequently sell or transfer them out of treasury as permitted in accordance with legislation) rather than cancel them, subject to institutional guidelines applicable at the time. Shares will only be purchased if to do so would result in an increase in earnings per share and is in the best interests of shareholders generally. The Board has previously indicated its intention to continue to return surplus cash to shareholders via on-market purchase of its own shares where it is not required to finance the organic expansion of the business, acquisitions and dividend payments.

The authority conferred by this resolution will expire at the conclusion of the next AGM.



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