



CHURCHiLL



ANNUAL REPORT 2019





# 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 of innovative performance ceramic products serving Hospitality markets worldwide.

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

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

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

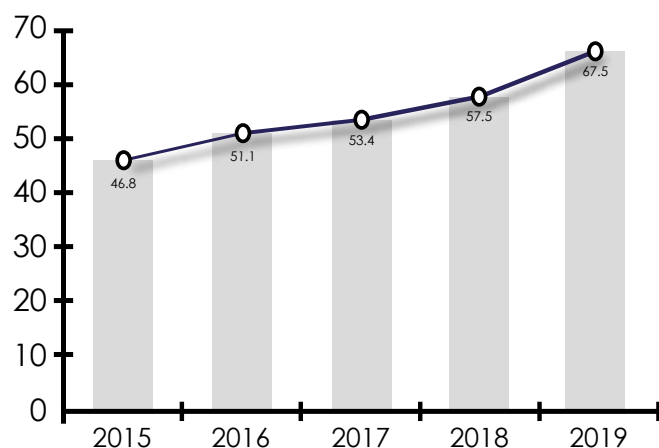
We maintain a strong, ungeared balance sheet. We aim to improve performance steadily on a long term basis and to generate cash each year to reinvest within our business and to provide an attractive return to shareholders.

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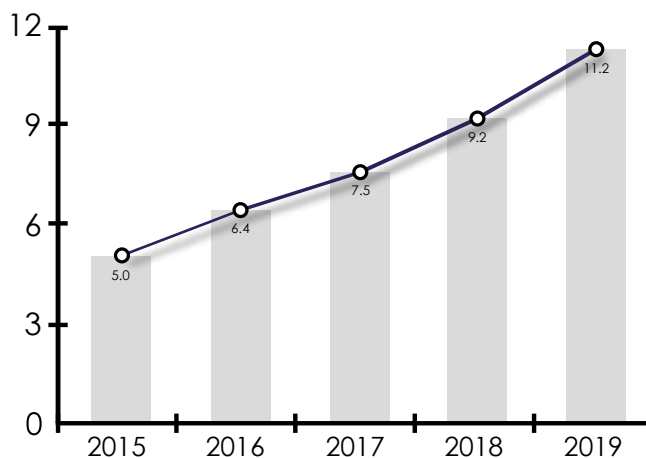
# Five Year Performance

## Revenue (£m) £67.5m ↑17%



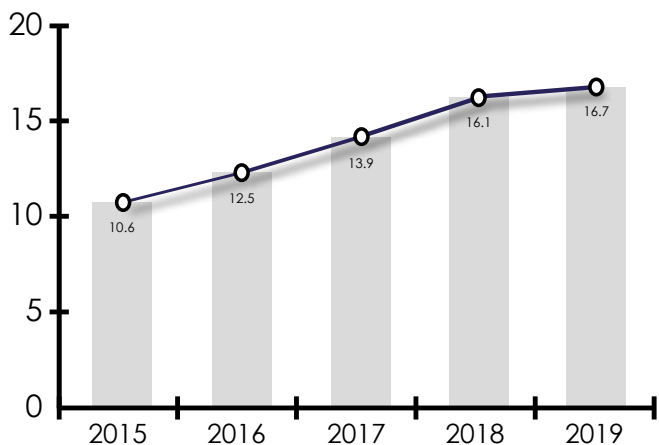
Revenue increased by 17% with organic growth of 9% and the acquisition of Furlong Mills adding a further 8%.

## \*Operating Profit (£m) £11.2m ↑22%



Underlying operating profit rose 17.4% due to improved gross margin and stable costs.

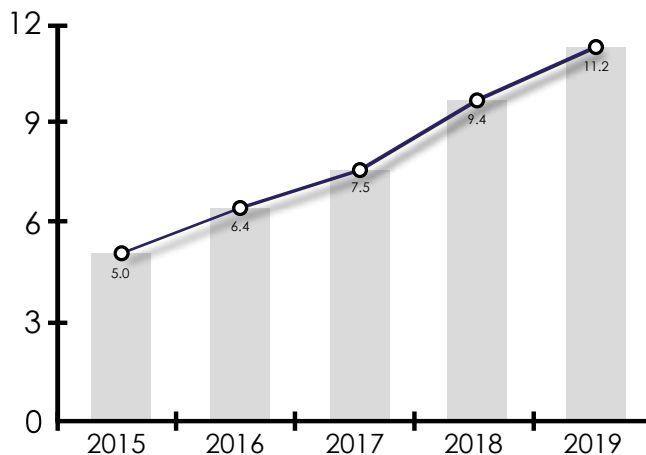
## \*Operating Margin (%) 16.7% ↑0.6%



Underlying operating margin improved to 17.3% in the year due to the further conversion of sales to innovative, higher margin, added value products.

\* Excluding exceptional items.

## \*Profit before Income Tax (£m) £11.2m ↑19%



Profit before income tax has increased 19% largely as a result of our improved operating performance, with the acquisition of Furlong Mills adding £0.4m to Group performance.

## Other Highlights

- Adjusted EPS\* up 17.4% to 81.7p
- Basic EPS up 26% to 82.6p
- Cash generated from operations £11.3m (2018: £8.3m)

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



**“Our performance in 2019  
maintained the strong  
record of progress we have  
established in recent years.”**





# Financial Highlights

	2019 £'000	2018 £'000
<b>Revenue</b>	<b>67,502</b>	57,479
<b>Operating profit before exceptional items</b>	<b>11,242</b>	9,237
Exceptional items	117	(541)
<b>Operating profit</b>	<b>11,359</b>	8,696
Share of results of associate company	(22)	185
Net finance cost	(44)	(34)
<b>Profit before exceptional items and income tax</b>	<b>11,176</b>	9,388
Exceptional items	117	(541)
<b>Profit before income tax</b>	<b>11,293</b>	8,847
<b>Dividends paid</b>	<b>3,356</b>	2,840
<b>Key ratios</b>		
Operating margin before exceptional items	16.7%	16.1%
Earnings before interest, tax, depreciation, amortisation and exceptional items (£'000)	13,594	10,941
Adjusted earnings per share*	81.7p	69.6p
Basic earnings per share	82.6p	65.6p
Diluted adjusted earnings per share*	80.9p	69.0p
Diluted earnings per share	81.8p	65.0p
Dividends per share paid	30.6p	25.9p

\* 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  
One Chamberlain Square  
Birmingham  
B3 3AX

## Solicitors

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

## Stockbrokers and Advisers

Investec Bank plc  
30 Gresham St  
London  
EC2V 7QP

## Bankers

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

## Registrars

Equiniti  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6ZX

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





# Chairman's Statement

**“Our business strategy, emphasising innovation, differentiation and service, has continued to deliver value.”**

## Introduction

I am pleased to report that our performance in 2019 maintained the strong record of progress we have established in recent years. Our business strategy, emphasising innovation, differentiation and service, has continued to deliver value to all our stakeholders and to demonstrate long term resilience and sustainability.

We have acted quickly to face the challenges presented by COVID-19 and the rapidly changing business environment. Churchill has prioritised the safety of its employees and other stakeholders and has acted quickly to ensure this. Our contingency planning process is underway based on the assessment of a number of business scenarios and we have begun to adjust our plans accordingly. Our exposure to the hospitality industry will undoubtedly impact our performance in the immediate future, but we have implemented appropriate actions to substantially reduce the cash cost of our operations in the short term.

Churchill has a strong, ungeared balance sheet including high levels of liquid cash. We have further undrawn facilities and the opportunity to utilise our substantial asset base to secure additional facilities if required.

The current business climate is as uncertain as it has been for many years. Whilst the medium and long term effects of the present crisis are as yet unclear, Churchill is a well invested, resilient and highly responsive business led by an experienced management team. We are well positioned to meet the current challenges and we have a considerable ability to adjust our forward strategy to ensure that we continue to deliver value to our stakeholders.







“Churchill is a well invested,  
resilient and highly  
responsive business.”



# Chairman's Statement

## Financial Review

Total revenues increased by 17% to £67.5m (2018: £57.5m) with further strong growth in Hospitality ceramics export sales and the inclusion of revenue of £4.8m from Furlong Mills for ten months of the period.

Ceramic revenue growth, excluding the effects of the acquisition of Furlong Mills, was 9% (2018: 7%) with sales rising to £62.7m (2018: £57.5m). UK revenues increased by 3% to £23.6m (2018: £23.0m). Export revenues were £4.6m higher (+13%) at £39.1m (2018: £34.5m).

Within these figures there was, mainly in the second half year, a contribution from the purchase of products and IP from Dudson. Sales from Dudson products were marginally above our initial targets at £1.2m (2018: £0.0m). Retail sales, as forecast, were lower than in 2018.

Gross margins grew within our Ceramics business as we continued to increase sales of added value product.

Operating profit before exceptional items increased by 22% to £11.2m (2018: £9.2m) with Furlong Mills contributing £0.4m (4%) of this increase. On a like-for-like basis operating profit increased by 18%. Operating profit margins increased to 16.7% (2018: 16.0%). Growth in operating profit arose mainly from improved revenues and a further increase in the proportion of our business represented by added value products. We have continued to invest in the extension of distribution in our export markets, in product development and in improved customer service.

Profit before exceptional items and income tax rose by 19% to £11.2m (2018: £9.4m), largely as a result of the increase in operating profit. This strong performance maintains our record of profit growth. In the five years to the end of 2019 we have increased profit before income tax at a compound rate of 21% per annum.

Adjusted earnings per share improved by 17% to 81.7p (2018: 69.6p).

During the year we purchased, in two stages, the remaining equity in our associate company, Furlong Mills Ltd, at a net cash cost of £2.9m. As a result of this we now consolidate Furlong Mills as a subsidiary of Churchill. As we acquired a higher value of assets than the overall consideration paid, negative goodwill of £0.1m was generated. In accordance with accounting standards, this has been credited to the Income Statement and treated as an exceptional item.

Reported profit before income tax rose to £11.3m from £8.8m in 2018.

Basic earnings per share, including the above exceptional items, improved by 26% to 82.6p (2018: 65.6p)

We have continued to generate a good operating cash flow of £11.3m in the year (2018: £8.3m). Working capital requirements were slightly higher reflecting an increased level of inventory attributable to the establishment of a stock holding in our new European warehouse and a higher level of sales.

Capital expenditure rose to support the increased level of activity within our business. In addition to the £2.1m spent on the purchase of equipment and intellectual property from Dudson, we have invested a further £3.7m (2018: £2.1m) in developing our operations. This expenditure includes projects to extend our manufacturing space and to provide additional kiln capacity for added value production which we expect will be completed in the first half of 2020. All our operations are well invested.

We continue to enjoy a strong, ungeared, balance sheet with net assets of £41.8m. Despite the significant level of investment during the year net cash and deposits remained high at £15.6m (2018: £17.4m). Churchill's business model emphasises the generation of cash and this provides flexibility in adverse conditions. Our assets are largely tangible and also give us a high degree of short term liquidity. We retain significant forward capacity to manage our cash flow and to raise additional finance if necessary.

## Dividend

The Board is aware of the importance of dividend income to shareholders and our long term policy remains that the owners of the business should receive an appropriate return. However, given the current levels of uncertainty in relation to COVID-19, the Board believes the most appropriate position at this time is not to propose a final dividend in respect of 2019 (2018: 20.3p per ordinary share). Whilst the Group continues to maintain high levels of cash and deposit balances, it has put

in place a number of actions to preserve its operational position. We plan to retain cash within the business to provide forward flexibility at present. The Board will review its dividend policy at the earliest opportunity once the overall impact of COVID-19 is more certain.

## Business

### Ceramics

We have continued to make good progress within our Ceramics business in line with the strategies that we have articulated. As 2019 demonstrates, we now enjoy a much wider spread of revenue from a number of different markets.

Export revenues increased by 13% and now represent 62% of Ceramics sales (2018: 60%). The business' progress in overseas markets has been maintained, with Europe and the USA both contributing strongly to growth. Our established market positions have further developed and we have continued to invest in regional operations. This export growth is the outfall of consistent investment in new product development and in the building of appropriate distribution channels.

Our UK sales have also increased after a period of consolidation. The actions implemented in the last eighteen months to improve our competitive position have worked well and revenues in the UK increased by 3%. We benefit from wide distribution across a range of sectors and have a deep and long established presence in what is a replacement orientated market.

In April 2019 we purchased product and brand intellectual property from Dudson in order to accelerate two key elements of our strategic development; growing sales of added value product and the extension of our distribution channels overseas. The Dudson range has now been integrated into our Hospitality offering and we have established a number of separate distribution arrangements in key market sectors. Total sales under the Dudson brand in the period following acquisition were £1.2m, slightly ahead of our original estimates.

The translation of sales from standard to added value product remains an important part of our long term strategy and we have achieved a further increase in the proportion of our revenue attributable to added value product which now represents over 47% of our Hospitality sales. This increase reflects the substantial investment in innovation, product and market research and new product development made in recent years. Stonecast continues to grow strongly and our Studio Prints range has made further progress. The purchase of intellectual property in the Dudson Evo and Harvest products, which use distinctive glaze technology, will provide additional opportunities to continue to grow added value product revenues.

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 is of great value to the business.

### Materials

The acquisition of control of Furlong Mills in February 2019 has secured an important part of our supply chain. Furlong Mills is a ceramic materials manufacturer based in Stoke on Trent and provides processed clay body and glaze to Churchill and other major manufacturers. Longer term we wish to maintain our position of producing a high quality technical performance ceramic and continuing to innovate and differentiate our product and we believe our increased investment in Furlong Mills and its leading position in applied material science will support this.

Furlong Mills has traded in line with our expectations during the ten months of our ownership, total revenues were £7.8m, of which £3.0m was sold to Churchill. Operating profit for the period was £0.4m.

### Operations

We have continued to make substantial progress in the evolution of our manufacturing and logistics operations, again in line with our established strategies and business plan.

The growth of our business in 2019 and continued orientation towards differentiated product provided several challenges for our operational team. Activity levels remained high and the acceleration of our capital investment programme also brought additional demands. We have also prioritised initiatives aimed at improving the sustainability of our operations. New product development has continued. We expect to complete two major projects in the first half of 2020 which will provide additional production space and first stage kiln firing capacity. Both of these projects represent important long term investments and will improve our efficiency and flexibility as well as increasing overall capacity.



The integration of Dudson product manufacture into our operations, including new technologies and processes, has been completed successfully.

During the year we established a third party logistics facility in Rotterdam. This investment allows us to provide further service improvements to our European customer base and to mitigate the potential impact of Brexit on our delivery security. Long term we continue to expect that Europe will provide further growth opportunities and the ability to supply within market will support this development.

## Brexit

We have reviewed our exposure to the ongoing Brexit process. 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. We believe we have identified, developed and implemented, where appropriate, plans to mitigate the effect of potential disruption on our business where possible.

## People

As I commented on earlier in this statement, 2019 was a record year for our business. This performance reflects the knowledge, strength and commitment of our team at all levels of our operations. We have built a strong business with a sound, long term, business plan. I once again thank all our employees for their contribution to Churchill's success. The qualities inherent within the Churchill team will stand the business in good stead in the coming months.

We have continued to invest in the development of all our staff and have maintained our commitment to increased training and to continuous

improvement programmes. We have a high level of engagement with our workforce and it is encouraging to see the result of this in their performance.

## COVID-19

The short and long term impact of COVID-19 is not yet clear. The Company has acted quickly to assess the impact on its business and to develop and implement a set of immediate responses to the impact upon our operations in the short term. Our first priority was to ensure the safety of our employees. To that end we commenced a programme of distancing within certain operations on 19 March and on 25 March we suspended production at our Sandyford site and furloughed the majority of our workforce. We retain the ability to meet short term demand from inventories held in our logistics operations in the UK, Rotterdam and Chicago.

Given that the majority of our costs are represented by production materials, labour and energy, the suspension of manufacturing operations, supported by the Government's Coronavirus Job Retention Scheme has, in the short term, substantially lowered the cash cost of our operations to below £1m per month. We anticipate that our current cash reserves, which are highly liquid, will provide a significant level of forward cover during and beyond the present lock down period.

We are continually reviewing medium and longer term business scenarios as part of our contingency planning process. As a business we enjoy a wide spread of revenue both in terms of geography, distribution channels and product range and we are developing forward plans to provide flexibility should future market performance change from that previously experienced. Whilst we expect that Hospitality revenues may be lower in the short term and may take several months to recover to normal levels





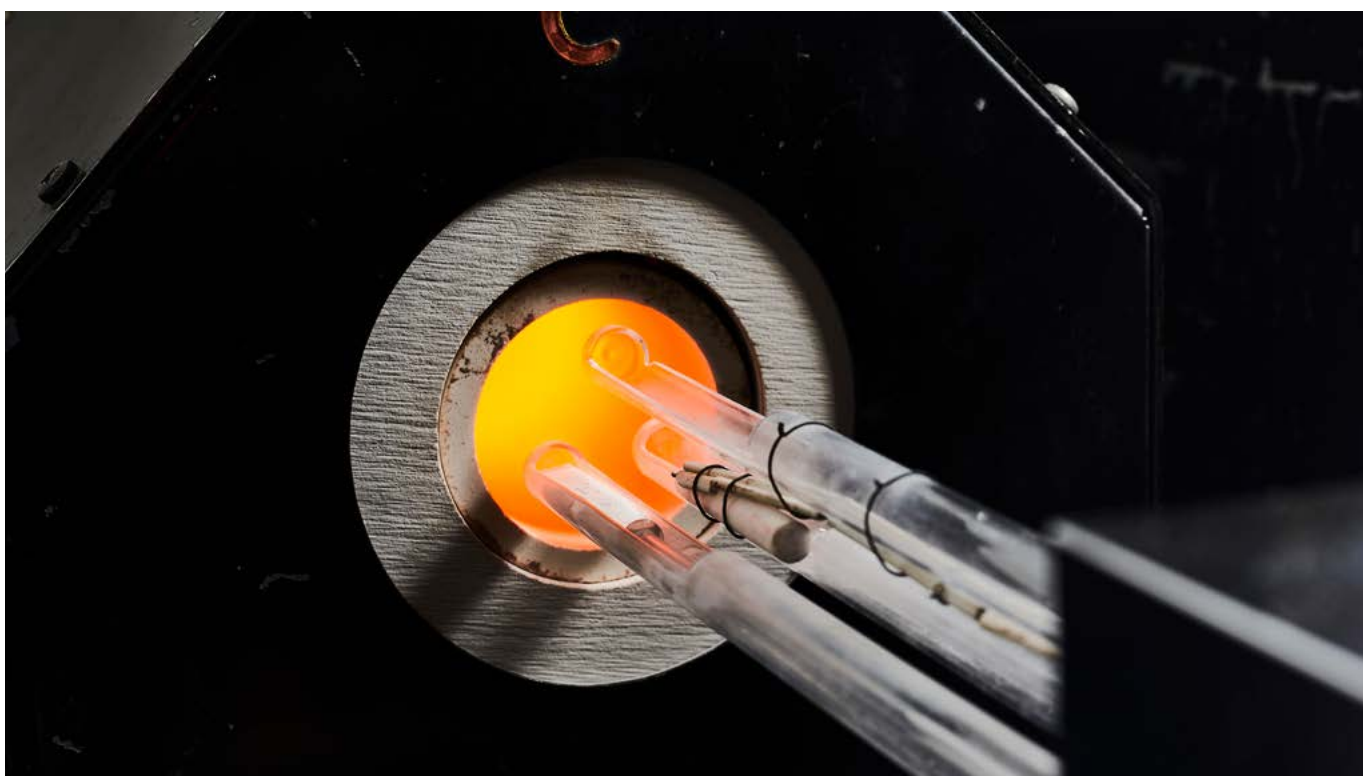
# Chairman's Statement

we retain the ability to optimise our UK manufacturing operations through a renewed focus on other sectors within the tableware market and other alternative measures.

Our record of consistent cash generation, regular investment and strong balance sheet gives us a significant level of flexibility in the medium term. We believe that, if necessary, we may reduce the ongoing level of expenditure on revenue and capital projects without significantly impacting our ability to re-focus or grow our business.

## Outlook

2019 was a very successful year, reinforcing the substantial progress made in developing and implementing long term growth strategies. Churchill has been repositioned as a business and offers innovative and differentiated products across a wide spread of markets. 2020 had started well with performance ahead of our expectations and in other circumstances this would be the basis of a further improvement in performance. However, the as yet unknown impact of COVID-19 on our markets will undoubtedly have an impact on current year performance, particularly in the first half year.





**“Churchill offers innovative and differentiated products across a wide spread of markets.”**





# Chairman's Statement

Churchill has in the past proved itself to be a well run and resilient business capable of dealing with significant external shocks. This reflects our strong, well resourced operations, our experienced management team and our long term approach to business. We enjoy a high degree of operational and financial flexibility in the short and medium term. We have already adjusted our forward plans both to manage our cash and reduce costs where appropriate, but also to prepare for changes in our market environment longer term. Whilst our immediate actions are focused on the short term, we believe that our core strategies remain sound and that we are well positioned to continue to prosper in the longer term.

As a result of the evolving COVID-19 position and consequent lack of forward visibility, no formal guidance will be given on future financial performance at the present time. We intend to reinstate guidance as soon as practicable and, in the meantime, will continue to update investors as appropriate.

**Alan McWalter**  
Chairman  
7 April 2020







**“Our core strategies remain sound and that we are well positioned to continue to prosper in the longer term.”**



# Strategic Report

The Directors present their Strategic Report for the Group for the year ended 31 December 2019.

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

## Business purpose

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

## Values

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

## Culture

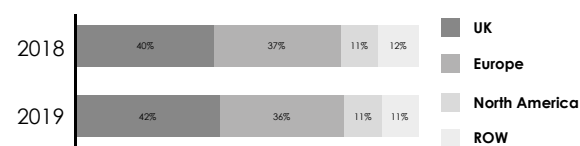
Churchill has developed a business culture emphasising continuous improvement, a high level of service to customers and strong relationships with all our stakeholders. This culture has formed an important part of the Company's long term success and development. Our culture is led by the Board, but is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

## Principal activity and business environment

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

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.

## Revenue by market



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 increase 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 remained steady, reflecting economic and political uncertainty and lower levels of new investment in pubs, restaurants and hotels.

We have continued our programme of investment in product innovation, market development and expansion of our manufacturing operations.

The effect of the COVID-19 pandemic on economic growth within our UK and export markets is not yet certain. It is likely that, in the short term at least, demand levels will be reduced. The business has initiated contingency planning measures and has implemented several actions, as noted in the Chairman's Statement earlier in this report, to manage the effect of these revised conditions upon the Group.

## Promoting the success of the Company

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

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

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

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

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

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

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

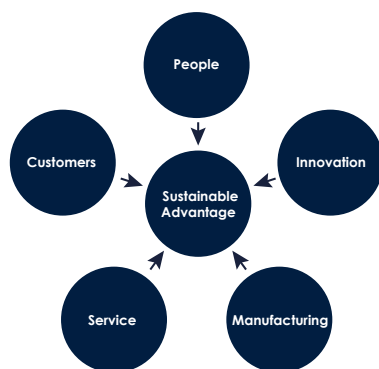
We meet with suppliers on a regular basis to provide information in relation to our forward plans and review performance. As in other elements of our business we enjoy long standing relationships with the majority of our suppliers. On average we pay suppliers within 39 days (2018: 38 days) of invoice. We believe our suppliers regard Churchill as a good customer.

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

## 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.





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

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

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

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

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

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

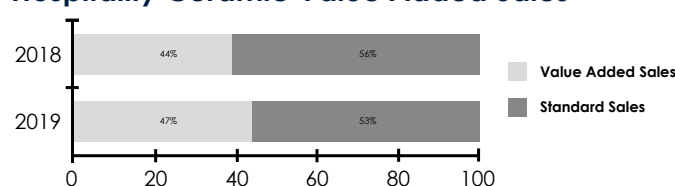
## Strategy

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

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

Innovation 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. 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.

## Hospitality Ceramic Value Added Sales



We understand that quality must exist throughout our business process. Quality is reflected not only in the appearance of our product but in its design, its technical performance and in the systems which support the fulfilment of our contract with our customers. We invest to maintain the performance of our products and to extend our capabilities.

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

## Business model

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

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 facilities.

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

## Performance

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

Ceramic 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 long term 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. COVID-19 will undoubtedly impact levels of dining out in the short term, but we anticipate that it will continue to remain popular over a longer time horizon.

Material and labour costs have again risen at slightly higher rates than underlying inflation and 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.

In line with our long term performance we have continued to generate cash strongly through the year given increased profitability and a continued control of working capital.

We have substantially increased the level of investment in our business both in terms of capital expenditure, in the purchase of intellectual property and plant and equipment from Dudson Holdings Limited (in Administration) and a controlling shareholding in Furlong Mills, previously an associate company. Despite these investments, cash and deposit balances remain at good levels.

## Acquisitions

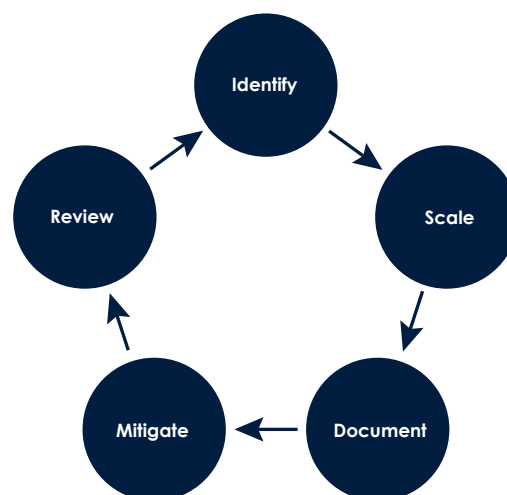
The core of our strategy is based around steady growth in our target business areas. We do not normally use acquisition as a means of achieving this. However, where we have opportunities to accelerate our organic growth at an acceptable cost we will evaluate acquisition. The acquisitions made this year meet these criteria and have accelerated two key themes of our strategy, the growth of added value products within our range and extension of our technical expertise and differentiation.

Assets purchased from Dudson have performed well and in accordance with our plans at the date of acquisition.

Our rationale for this purchase was to increase the proportion of our revenue represented by added value products, to introduce a new decorating technology to our range and to provide the opportunity to extend our international distribution. We have made substantial progress in respect of all the above targets.

During the year we acquired, in two stages, the remaining shares in our associate company, Furlong Mills Ltd. The acquisition of Furlong Mills is intended to further secure our access to our key raw material, clay, and to allow us to further develop our technical expertise in the longer term, an important competitive advantage. Furlong Mills is performing well in relation to these targets.





## 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
<b>Market and Business Environment Change</b>	↑	<p>The Group operates in dynamic markets where there have been significant recent changes to economic and trading conditions, distribution channels within each market and product requirements in these markets. The Group actively manages its market exposure and profitability, but risks losing revenue if we do not anticipate and respond to market trends and risks.</p> <p>The risk inherent in each market is offset by regular review of market conditions and forecasts, the relatively broad spread of our operations in geographic terms and by a widening portfolio of products to serve different segments of these markets. We are actively developing new geographic markets and introducing new product ranges. As we enter new markets this introduces new risks to the Group although it does also diversify our overall market exposure and reliance on existing products.</p>
<b>Brexit</b>	=	<p>The impact of Brexit in early 2020 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 regulations 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>
<b>COVID-19 – Coronavirus</b>	↑	<p>The spread of COVID-19, Coronavirus, will have an impact upon the performance of the business through reduced revenues, particularly given the Group's exposure to hospitality markets.</p> <p>As yet it has not been possible to scale the extent to which the Group's business will be affected or the period over which this impact will be felt.</p> <p>The management team has responded to this issue using our risk analysis processes. A number of possible scenarios have been reviewed and revised actions developed and implemented. These actions emphasise the maintenance of the safety of our employees and the management of cost and working capital levels.</p> <p>The impact of the virus on the financial position of the Group is unknown, but the Group holds significant liquid cash balances and a number of assets that may be used to raise additional finance if required. This should support the resilience of the Group.</p>
<b>Currency Exposure</b>	=	<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 Euro and US dollars. Against US dollar receipts we have a partial natural offset due to our overseas purchasing. We normally expect to have more significant net Euro receipts.</p> <p>We review and control our transactional foreign currency exposure regularly and take appropriate action to manage net exposures largely using simple option forward contracts. We also review currency rate changes as part of our pricing policy.</p>
<b>Manufacturing and Supply Chain</b>	=	<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 seek to control and mitigate this risk through management of our overall energy consumption, small scale investment in sustainable energy generation 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>



Risk	Risk Change	Risk Description
People	=	<p>Our business depends upon the skills and knowledge of a number of people at all levels within our operation and within supplier companies. Certain of these skills and experience may only be acquired through extensive training and experience and it is possible that they may not be available through the recruitment of new employees in the future. We aim to limit this risk through the establishment of appropriate manpower and succession planning, identifying training, development and recruitment needs.</p> <p>As a substantial employer and manufacturer we need to comply with extensive health and safety requirements. We limit the risks associated with Health and Safety through the application of appropriate systems, regular review at Board, management and operational levels, training and investment in risk mitigation.</p>
Cyber Security	=	<p>Our business increasingly uses information technology to manage our operations and deliver value. We aim to take appropriate steps to secure our systems from failure or malicious action.</p>
Regulation, Compliance and Taxation	↑	<p>Our operations are subject to regulation by many government and non government organisations. The Group aims to manage conformance to these regulations such that it is able to continue to operate and meet appropriate standards.</p> <p>As the majority of our products are used in the consumption of food, we are exposed to risk in relation to our products meeting accepted safety standards within the markets we serve. Each major geographic market applies different standards and legal penalties may be considerable for non compliance. New and more stringent standards may be introduced.</p> <p>We manage these risks principally through the monitoring of applicable standards, the testing of our 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>



## 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.

	2019 £m	2018 £m	Growth %
Revenue			
Group	67.5	57.5	17.4%
Ceramics	62.7	57.5	9.0%
Materials	4.8	0.0	
UK	28.4	23.0	23.7%
Export	39.1	34.5	13.3%

Sales to Ceramics customers performed well, recording growth against a strong comparative.

Group export sales rose by 13.3%, largely as our European and Rest of the World markets again delivered returns on the investments we have made. UK revenues increased principally as a result of the acquisition of Materials sales through Furlong Mills Ltd. Underlying UK sales rose steadily.

### 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.

	2019 £m	2018 £m	Growth %
Operating profit before exceptional items	11.2	9.2	21.7%
Operating margin	16.7%	16.1%	
Profit before exceptional items and income tax	11.2	9.4	19.0%
Exceptional items	0.1	(0.6)	
Profit before income tax	11.3	8.8	27.6%

Group operating profit before exceptional items increased by 21.7%. 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. The acquisition of Furlong Mills contributed £0.4m to Operating Profit before exceptional items.

Operating margins before exceptional items increased satisfactorily to 16.7% (2018: 16.1%) reflecting an increased mix of added value product within Materials offset by the lower operating profit margins available in Materials.

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 19.0% mainly as a result of the strong increase in operating profits.

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

Exceptional credit: Negative goodwill on the acquisition of Furlong Mills Ltd £0.1m (2018: Exceptional cost: Pensions past service charge and the release of prior year provisions against the disposal of property totalling £0.6m).

## 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.

	2019 £m	2018 £m	Growth %
Operating cash generation	11.3	8.3	37.1
Percentage of operating profit	101%	89%	
Percentage of operating profit (3 year average)	97%	97%	

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 inventory holdings. Employer contribution 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.

	2019 £m	2018 £m
Inventory	11.6	9.9

The rise in inventory holding levels reflects increased holdings of Ceramic stocks to allow better service to export customers and the addition of inventory held at Furlong Mills Ltd following its acquisition.

## Future outlook

The Board believes that the strong position we hold in a number of 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. 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 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.

In the short term, the impact of the COVID-19 virus on hospitality markets is currently uncertain both in terms of the degree and the length of effect it may have. The Board is monitoring the position and is implementing a number of risk mitigation initiatives. Churchill remains focused on long term development and retains strong market and financial positions.

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  
7 April 2020





**“Churchill remains focused  
on long term development”**



# Directors' Report

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

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

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

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

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

## Dividends

The Directors have paid the following dividends in respect of the years ended 31 December 2019 and 31 December 2018:

	2019 £'000	2018 £'000
Ordinary dividend:		
Final dividend 2018: 20.3p (Final dividend 2017: 17.2p) per 10p ordinary share	2,224	1,886
Interim dividend 2019: 10.3p (2018: 8.7p) per 10p ordinary share	1,132	954
	<b>3,356</b>	<b>2,840</b>

The Directors now recommend payment of the following dividend:

Ordinary dividend:		
Final dividend 2019: nil (2018: 20.3p) per 10p ordinary share	–	2,224

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.

Given the present uncertainty regarding the impact of COVID-19 on the general business environment and the Company's operations, the Directors have resolved not to propose a final dividend for 2019 at present. The Directors will review the payment of a final dividend for 2019 and future dividend policy once the forward position can be assessed with more clarity.

## 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 M O'Connor, A J McWalter and A C Bromfield who being eligible, offer themselves for re-election. The unexpired terms of the service contracts of D M O'Connor is 12 months, A J McWalter 3 months and A C Bromfield 4 months.

The biographical details of the Directors are as follows:

David O'Connor, Chief Executive Officer has worked for Churchill for 29 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 28 years. He was appointed to the Board in 1993. Following qualification as a Chartered Accountant with KPMG, he worked in a number of finance roles in the manufacturing sector before joining Churchill in 1992. Since joining Churchill, David has developed wide experience across the business.

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

Alan McWalter, Non Executive Chairman joined the Group in January 2011. He is also Chairman of Newmarket Travel 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 Brand Architektiks 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, Harworth Group plc and Marshalls plc. She has had a broad based international career in manufacturing, distribution and construction and held a number of senior roles in listed companies including Morgan Sindall plc. Angela has a degree in Chemistry from Reading University and an MBA from Warwick Business School. She joined the Board in 2016.

## Taxation

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

## Ethical standards and trading

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

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

## Employees

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

Our employee training and development programme is an important part of our operations and we have further invested in reviewing and identifying development needs and opportunities. We have continued to work with our local further educational colleges and training organisations to provide functional and vocational training for employees and our manufacturing based apprenticeship scheme targets the development of important ceramic skills within our team. A number of employees are pursuing external qualifications in various areas. Our long-term commitment to the training and development of all our employees has helped morale, motivation and labour retention.



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

Our 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. This process also helps to communicate important business issues to our workforce and helps to align their efforts with the overall business strategy.

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

We operate a Profit Improvement scheme in which all employees with over one year's service share in a bonus scheme linked to Group profitability. This scheme recognises all our employees efforts, to encourage performance in line with 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.

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

## Environment, social and community

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

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

Whilst the Company manufactures a product which may be re-used many thousands of times, a significant amount of energy is consumed in its production. As a result of this we have invested steadily to reduce our energy consumption and have replaced older systems and machinery with more modern energy efficient processes. In 2019 we commenced a programme of assessing and investing in small scale energy generation.

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

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

Churchill has developed a formal brand framework which highlights the values which we believe embody our business. Many of these values reflect our commitment to our stakeholders. This brand framework is used daily within our business to guide our operations.

We understand that we have an impact on our local community and consider the effect of our actions on our local area. Where possible we work to reduce any adverse effects of our operations, consistent with the needs of other stakeholders within our business. We actively engage within our community through contact with our neighbours and local schools and particularly through local charity initiatives. We encourage and support our employees to become involved in community and charitable work. We run a number of events each year in support of charitable causes.

## Research and development

The introduction of new and innovative products, designs and process technology remains a cornerstone of our future strategy. The Group's aim is to continue to identify future market trends and then to design and develop products that meet these needs. We have 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.

During the year the Group generated £11.3m of cash flow from operating activities and after payment of corporate taxation of £1.8m, invested £5.6m in capital projects and a net £2.9m to buy the remaining shares in Furlong Mills Ltd. £3.4m was returned to shareholders by way of dividend. Net cash and deposits before lease liabilities at 31 December 2019 were £15.6m (2018: £17.4m).

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

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

The Group currently has no net debt and holds substantial levels of unpledged assets including freehold property. These assets form an alternative source of secured medium or long term funding if this is required. Larger long term funding requirements may be met from debt and equity sources if necessary. There are no covenants in place relating to the Group's banking arrangements. In response to the impact of COVID-19 the UK government has also announced a facility for businesses to obtain loan financing. It is believed that if necessary, the Group could seek support from this facility.

## 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.

## 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 19 March 2020 exceeded 3% of the Company's issued share capital:

Shareholder	Number of ordinary shares	Percentage
Investec Wealth and Investment	1,313,629	12.0%
S Roper	936,500	8.5%
Hargreave Hale Limited	823,060	7.5%
Rathbone Nominees Limited	756,365	6.9%
E S & S J Roper	417,765	3.8%
Aberdeen Standard Investments	415,379	3.8%

## 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 no (2018: 38,000) 10p ordinary shares at a total cost of £nil (2018: £388,000) in order to improve overall shareholder return. 30,984 (2018: 30,927) shares were reissued in respect of employee share option schemes for a total consideration of £3,000 (2018: £3,000). The Company retains a power, subject to the fulfilment of certain conditions and as approved at the 2019 Annual General Meeting, for the further purchase of its own shares.

## Political contributions

The Group made no political contributions (2018: £nil) during the year.

## Events occurring after the reporting period

Since the end of the year to 31 December 2019, the negative effect of COVID-19 on the worldwide business environment and the Group's operations has increased. The full impact of COVID-19 on the Group's performance is not yet clear but is likely to be material. The Chairman's Statement earlier in this Annual Report gives more details of the impact on the Group, the business' response and the resources that the business will use to address the issues raised.

## 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  
7 April 2020



# 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](http://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	12	10
D J S Taylor	12	12
D M O'Connor	12	12
A J McWalter	12	12
B M Hynes	12	12
J A Roper	12	12
A C Bromfield	12	11

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

There are three sub-committees of the Board.

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

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

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

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

## Shareholder engagement

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

## Internal control

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

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

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

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

## 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.

# Corporate Governance

## Going Concern

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

The Board has considered several scenarios in relation to the potential scale and impact of COVID-19. This review has included consideration of the impact of different levels of reduction in revenue, different periods of effect, alternative operational responses and cost reduction plans, the high level of cash and deposits held by the Group and additional available financing. The range of scenarios examined included the analysis of the effect of extended periods with no or little revenue. These reviews indicate that it is reasonable for the business to expect to continue in operational existence for at least the next twelve months.

By order of the Board

**D J S Taylor**  
Company Secretary  
7 April 2020





# 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 remains appropriate. As 2020 is the third year since the Policy was last considered in detail further work was undertaken to benchmark the Policy against best practice;
- 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 2019 were considered.

In each case the Committee was conscious of the need to clearly align Executive Directors' remuneration packages with shareholders interests and with consideration of wider workforce remuneration.

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

The Group has continued to make solid progress against its performance and strategic targets. Profit performance in 2019 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.

We completed the two acquisitions during the year which accelerated our progress against our strategic plans.

In financial terms we grew operating profit before exceptional costs by 22% and pre tax profit before exceptional costs by 19%. Cash and deposit balances have remained strong at £15.6m despite a significant increase in investment in the business. Our compound return over the last five years at 30% is well ahead of the corresponding figure for AIM as a whole (8%).

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 rose by 28%, principally as a result of an increase in the value of LTIP shares vesting following the increase in share price during the year.

The review of the Remuneration Policy during the year resulted in the following changes:

- Additional triggers reflecting insolvency and serious reputational damage have been introduced in the operation of malus and clawback arrangements in relation to future bonus schemes and LTIP awards
- The Remuneration Committee will be given a discretion, acting fairly and reasonably, in relation to future LTIP awards to override (downwards) vesting outcomes

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. This section sets out the Company's Directors' Remuneration policy, which will apply from the date of the 2020 Annual General Meeting. It has not changed significantly from that adopted in 2017.

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
<b>Basic pay</b> 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"> <li>Market conditions including typical pay levels for comparator companies taking into account the relative scale and complexity of the role and business</li> <li>Scale and scope of the role, experience and performance of the individual</li> <li>Average change in salary for the workforce as a whole</li> </ul>	<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"> <li>An Executive Director assuming additional responsibilities</li> <li>Significant improvement in individual performance</li> <li>Significant change in the size or scope of an Executive Directors' role.</li> <li>Where salary is initially set below market levels for a newly appointed Executive Director to allow for progress in their role.</li> </ul>	<p>Not applicable, although overall performance of the individual and the Company is considered by the Remuneration Committee when setting and reviewing salaries.</p>
<b>Annual Bonus</b> Rewards the achievement of annual financial and strategic business targets as well as the delivery of personal objectives  Clawback and malus applies to enable the Company to mitigate risk	<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>The Remuneration Committee has the right to operate both clawback and malus provisions in respect of bonus scheme awards in relation to circumstances of corporate failure which may have occurred at any time before claw back is operated.</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>
<b>Benefits</b> 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
<b>Pensions</b> Provide market competitive post-employment benefits to help recruit and retain employees of the appropriate calibre and experience	<p>Executive Directors are entitled to membership of Company pension schemes in operation from time to time.</p> <p>The Company currently operates a defined contribution scheme.</p> <p>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.</p> <p>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.</p> <p>Bonus and other benefits received by Executive Directors do not count towards pensionable pay.</p>	Up to 10% of basic pay under the defined contribution scheme.	Not applicable.
<b>Long term incentive schemes</b> 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	<p>The Company operates an LTIP approved by shareholders on 16 May 2012.</p> <p>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.</p> <p>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.</p> <p>LTIP payments are non-pensionable.</p>	<p>Executive Directors may be granted LTIP awards up to 100% of salary each year.</p> <p>For threshold performance, 25% of the award vests.</p> <p>For on-target performance, 40% of the award vests.</p> <p>For maximum performance, 100% of the award vests.</p> <p>Straight line vesting applies between threshold, target and maximum vesting.</p>	<p>Challenging performance targets are set each year reflecting the business priorities that underpin longer term Group strategy.</p> <p>At least 50% of the LTIP award will normally vest based on adjusted Earnings Per Share performance targets.</p>

There were no significant changes to Remuneration Policy during the year. The updated policy will operate from 2020 forwards.

## Non-Executive Directors

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

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

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

# Remuneration Report

## Explanation of performance metrics chosen

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

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

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

## Pay policy for other employees

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

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

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

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

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

## Statement of consideration of shareholder views

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

## Annual report on remuneration

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

	Salary £	Benefits £	Pension and pay in lieu of pension £	Annual bonus £	Long term incentive plan £	Total remuneration £
<b>2019</b>						
<b>Executive</b>						
D J S Taylor	216,827	817	19,053	154,230	234,952	<b>625,879</b>
D M O'Connor	281,663	566	24,750	200,348	303,172	<b>810,499</b>
J A Roper	218,333	566	12,507	155,400	194,403	<b>581,209</b>
<b>Non Executive</b>						
A J McWalter	77,917	–	–	–	–	<b>77,917</b>
A D Roper	88,899	–	–	–	–	<b>88,899</b>
B M Hynes	43,365	–	–	–	–	<b>43,365</b>
A C Bromfield	43,365	–	–	–	–	<b>43,365</b>
	<b>970,369</b>	<b>1,949</b>	<b>56,310</b>	<b>509,978</b>	<b>732,527</b>	<b>2,271,133</b>
<b>2018</b>						
<b>Executive</b>						
D J S Taylor	211,159	817	18,555	150,029	98,126	<b>478,686</b>
D M O'Connor	274,300	566	24,103	194,891	123,481	<b>617,341</b>
J A Roper	195,713	566	11,116	133,000	89,560	<b>429,955</b>
<b>Non Executive</b>						
A J McWalter	75,000	–	–	–	–	<b>75,000</b>
A D Roper	86,575	–	–	–	–	<b>86,575</b>
B M Hynes	42,232	–	–	–	–	<b>42,232</b>
A C Bromfield	42,232	–	–	–	–	<b>42,232</b>
	<b>927,211</b>	<b>1,949</b>	<b>53,774</b>	<b>477,920</b>	<b>311,167</b>	<b>1,772,021</b>

The value of gains under long term incentive plans shown above is calculated using average shares prices in the period from 1 October to 31 December of the year to 31 December 2019. The actual value of gains will be adjusted to reflect actual share prices at the date of exercise.



This section of the Remuneration Report is not audited.

On 1 August 2019, the salaries of all Directors, with the exception of J A Roper and A J McWalter, rose by 2.8% in line with the general inflationary rise given to employees. J A Roper's salary increased by 16.8% to reflect his increased responsibilities within the business on the same date. A J McWalter's salary, which is reviewed triennially, the last increase being in 2016, was increased by 6.7% on 1 May 2019.

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 2018 and 2019. 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 substantially above target levels and also successful performance against personal objectives.

During 2019 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 2019 threshold profit bonus levels were payable on the achievement of an operating profit before exceptional items of £9,340,000, on target profit levels were payable on the achievement of operating profits before exceptional items of £9,820,000 and maximum target profit levels were operating profits before exceptional items of £10,300,000.

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

No significant change has been made in the operation of the annual profit bonus scheme for 2020.

## 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 2018	Number of options granted	Number of options exercised	Number of options 31 December 2019	Date from which exercisable	Expiry date
<b>D J S Taylor</b>						
Long Term Incentive Plan (2016 grant)	10,159	–	(10,159)	–	May 2019	May 2026
Long Term Incentive Plan (2017 grant)	11,685	–	–	<b>11,685</b>	May 2020	May 2027
Long Term Incentive Plan (2018 grant)	11,216	–	–	<b>11,216</b>	May 2021	May 2028
Long Term Incentive Plan (2019 grant)	–	10,015	–	<b>10,015</b>	May 2022	May 2029
<b>D M O'Connor</b>						
Long Term Incentive Plan (2016 grant)	12,698	–	(12,698)	<b>12,698</b>	May 2019	May 2026
Long Term Incentive Plan (2017 grant)	15,179	–	–	<b>15,179</b>	May 2020	May 2027
Long Term Incentive Plan (2018 grant)	14,570	–	–	<b>14,570</b>	May 2021	May 2028
Long Term Incentive Plan (2019 grant)	–	13,010	–	<b>13,010</b>	May 2022	May 2029
<b>J A Roper</b>						
Long Term Incentive Plan (2016 grant)	8,127	–	(8,127)	–	May 2019	May 2026
Long Term Incentive Plan (2017 grant)	9,737	–	–	<b>9,737</b>	May 2020	May 2027
Long Term Incentive Plan (2018 grant)	9,347	–	–	<b>9,347</b>	May 2021	May 2028
Long Term Incentive Plan (2019 grant)	–	8,879	–	<b>8,879</b>	May 2022	May 2029

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

On 9 May 2019 31,904 options were granted to executive Directors, at a level representing 75% of base salary. The market price of the Company's shares at the date of grant was 1,605p.

For the options granted on 9 May 2019, 100% of the shares will vest given an increase of 40% in adjusted EPS\* ('maximum performance') in the year to 31 December 2021 over the base year of 31 December 2019, 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 27% 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 1,820p (2018: 940p). The range of prices for the year to 31 December 2019 was 940p to 1,825p (2018: 811p to 1,290p) per ordinary share.

## Pensions

This section of the Remuneration Report is audited.

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

# Remuneration Report

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.

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

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

	Date of signature	Unexpired term at 31 December 2019
<b>Executive</b>		
D J S Taylor	6 October 2009	1 year
D M O'Connor	15 May 2012	1 year
J A Roper	3 November 2015	1 year
<b>Non Executive</b>		
A J McWalter	16 May 2019	6 months
A D Roper	12 March 2020	8 months
B M Hynes	12 March 2020	9 months
A C Bromfield	12 March 2020	7 months

## 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 2019 in the 10p ordinary shares of the Company were as follows:

	2019	2018
A D Roper	378,430	637,430
D J S Taylor	55,555	59,555
D M O'Connor	36,113	49,020
A J McWalter	5,000	5,000
B M Hynes	4,000	4,000
J A Roper	1,000,835	1,000,835
A C Bromfield	983	983
	<b>1,480,916</b>	<b>1,756,823</b>

A D Roper's interest in the 10p ordinary shares of the Company at 31 December 2019 represented 3.4% (2018: 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 2019 represented 9.1% (2018: 9.1%) of the Company's issued share capital.

There has been no change in the interests set out above between 31 December 2019 and 25 March 2020.

## 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.

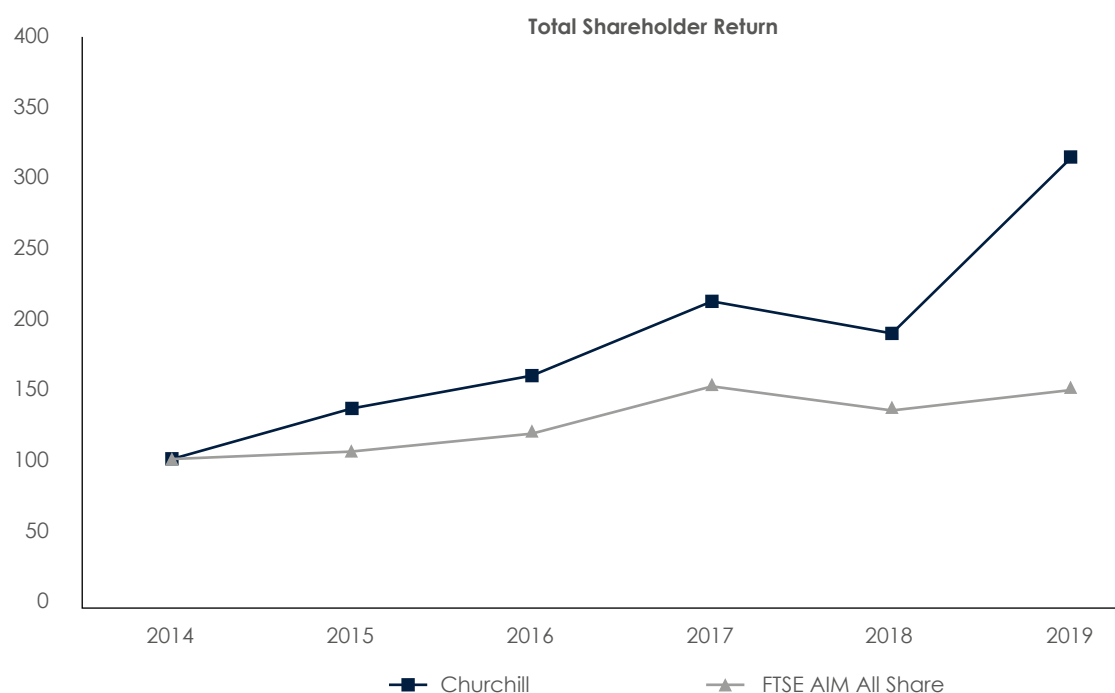
The Remuneration Committee will consult with major shareholders in relation to its operation and particularly in relation to any major changes in remuneration policy. During the year, with the exception of the standard resolution at the Annual General Meeting, the Remuneration Committee did not believe 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 2019 Annual General Meeting, the standard resolution in relation to the approval of the Report of the Remuneration Committee contained in the Annual Report for 2018 was passed. 99.8% of votes were cast in favour of the resolution, 0.0% against, with abstentions of 0.2%.



## Performance Graph

This section of the Remuneration Report is not audited.



(Source: Investec Bank plc)

Over a five year period the Group's total return to shareholders has been substantially above that generated by the AIM index. Total returns from the Group in the year have risen. The Group has increased its dividends to shareholders and there has been a substantial re-rating of the price at which the Company's shares are traded. Our overall five year return has remained positive at an average compound rate of 30% (AIM: 8%). Over the five year period total shareholder return from the Group has been 269% whilst that achieved by the AIM index as a whole was 46%. In the year to 31 December 2019 the overall return from the Group was 97% (AIM: 13%).

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

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

	2014*	2015	2016	2017	2018	2019
Single figure of remuneration (£'000)	664	600	637	686	617	810
Bonus payout (of base salary)	70%	70%	69%	70%	70%	70%
LTIP vesting (of maximum)	100%	100%	100%	100%	100%	100%
Profit before exceptional items and income tax (£'000)	4,317	5,014	6,515	7,460	9,388	11,176

\* D M O'Connor from August 2014

On behalf of the Board

**A C Bromfield**

Chair of the Remuneration Committee  
7 April 2020

# Nomination Committee Report

## Annual Statement

The Nomination Committee has considered a number of matters including:

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

7 April 2020

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# Audit Committee Report

## Annual Statement

The Audit Committee has considered a number of matters since the beginning of 2019 including:

- Review of the annual and interim financial results and the Annual Report;
- Agreement of the Audit Plan for the year to 31 December 2019 including the scope of work to be carried out;
- Consideration of the Report of the External Auditors, PricewaterhouseCoopers LLP, to the Audit Committee;
- Review of the independence, effectiveness and level of fees to be paid to the External Auditors.
- Consideration of a number of detailed financial and disclosure areas including:
  - the effect of changes in the operation of the Group on segmental disclosures,
  - the acquisition accounting methodology and disclosures in relation to the acquisition of Furlong Mills Ltd and purchase of tangible and intangible assets from Dudson Holdings Limited (in Administration); and
  - the impact of changes to accounting standards in respect of leased assets on the Group's financial statements.

## Financial reporting and significant financial issues

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

The Group's accounting policies and procedures in relation to the valuation of inventory, a key area of focus for the business, have been assessed. The value of inventory at 31 December 2019 was £11.6m (2018: £9.9m). The Committee is satisfied that the Group's policies and procedures are appropriate and have been consistently applied.

The Committee has reviewed the accounting methodology used in relation to the acquisition of further shares in Furlong Mills Ltd in February 2019, which gave Churchill China plc control of Furlong Mills with a shareholding of 55%, and again in September 2019, which raised the Group's shareholding to 100% of the issued share capital. The Committee is satisfied that the assets acquired have been appropriately valued.

The purchase of certain intellectual property and assets from Dudson Holdings Limited (in Administration) has also been reviewed. The Committee is satisfied that the assets purchased, in particular the intellectual property assets secured, have been appropriately valued.

## 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  
7 April 2020

# 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 2019 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 2019 (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 December 2019; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement, the reconciliation of operating profit to net cash inflow from operating activities, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

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

### Independence

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

## Our audit approach

### Overview



- Overall Group materiality: £564,000 (2018: £438,000), based on 5% of profit before income tax.
  - Overall Company materiality: £116,000 (2018: £114,000), 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 99% of consolidated revenue, 100% of profit before income tax and 96% of total assets.
  - The consolidation adjustments used to formulate the consolidated results of the group, as presented in the Annual Report have been audited to Group materiality.
- 
- Inventory Valuation - Group.
  - Business Combinations- Group.
  - Consideration of the impact of Covid-19 - Group and Company.

### The scope of our audit

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

##### Business Combinations - Group

Refer to the Audit Committee Report on page 33, the critical accounting estimates and judgements in note 1 on page 52 and note 13 (Acquisition of Subsidiary) on page 58.

On 25 February 2019, Churchill China acquired an additional 9.5% of the issued share capital of Furlong Mills Ltd for cash consideration of £454,000 from Dudson (Holdings) Limited, taking the Group's total shareholding to 55.6%.

On 30 September 2019, Churchill China acquired the remaining shareholding of Furlong Mills Ltd (44.4%) from Portmeirion Group plc for cash consideration of £3.3m.

We focused on this area because the accounting for business combinations including the valuation of the acquired balance sheet is inherently judgemental.

There is a risk that acquisitions are inappropriately accounted for and the fair values associated with these transactions do not lead to an appropriate valuation of the acquired interests.

We read the purchase agreements in order to understand the nature of the transaction and to ensure that relevant clauses that impact the accounting had been considered by the Directors. Additionally, we agreed the consideration paid to the terms of the purchase agreement and also audited the fair value ascribed to the pre-acquisition investment in the associate.

We audited and challenged management's assessment of the acquired assets and liabilities to ensure that the identification process was complete and accurate.

Fair value adjustments to assets and liabilities acquired were immaterial, however we challenged the appropriateness of these and also their completeness with reference to where a fellow market participant would be expected to determine value in the business.

Additionally, we audited the disclosure note associated with the acquisition transactions to ensure this met the disclosure requirements of IFRS 3 and captured all of the key elements included within the purchase agreements.

We found the accounting for business combinations and related disclosures to be appropriate and consistent with the audit evidence obtained.

##### Inventory Valuation - Group

Refer to the Audit Committee Report on page 33, the critical accounting estimates and judgements in note 1 on page 52, and note 16 (Inventories) on page 60.

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

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

We considered inventory write-offs in the financial year to ensure they are consistent with the key assumptions used in the inventory provision model at year end and that the methodology used for calculating the provision is appropriate.

We tested the integrity of the provision calculation model to ensure that it was using the underlying data correctly and calculating provision amounts accurately.

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

##### Consideration of the impact of Covid-19 – Group and Company

Refer to the Future outlook section within the Strategic Report on page 18 and note 1 (Summary of significant accounting policies) on page 46.

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

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

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

Management believe that Covid-19 is a non-adjusting post balance sheet event.

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

- evaluated management's downside scenarios, including challenging key assumptions being the profile of forecast revenue and variability of the cost base. We further sensitised management's forecasts to understand the impact of extended revenue depression and whether this would impact the conclusion drawn by management.
- checked the integrity of management's model, as well as agreeing underlying data to source documents.
- assessed whether management's mitigating actions are reasonably achievable based on our understanding of the business, including the nature of its cost base.
- obtained evidence to support disclosures within the financial statements and checked that the disclosures within the annual report are consistent with the financial statements and knowledge gained on the audit.

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

We have assessed management's view that Covid-19 represents a non-adjusting post balance sheet event and agree with this view. We are satisfied that the related disclosures are appropriate.

# Independent auditors' report to the members of Churchill China plc

## How we tailored the audit scope

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

The group is structured, and operates, as one consolidated business unit. The Group financial statements are predominantly a consolidation of three UK statutory entities, comprising the group's main trading entity Churchill China (UK) Limited, the parent Company, Churchill China plc and Furlong Mills Ltd. Each of these are subject to their own statutory financial statements audit.

In establishing the overall approach to the Group audit we have allocated materiality across the components with reference to their statutory materiality 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.

Based on the detailed audit work performed across the group, we have gained coverage of 99% of consolidated revenue, 100% of profit before income tax, and 96% of total assets.

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
<b>Overall materiality</b>	£564,000 (2018: £438,000).	£116,000 (2018: £114,000).
<b>How we determined it</b>	5% of profit before income tax.	1% of total assets.
<b>Rationale for benchmark applied</b>	Based on the benchmarks used in the Annual Report, profit before income 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 £38,000 and £495,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £27,000 (Group audit) (2018: £20,000) and £5,800 (Company audit) (2018: £5,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## 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.



## 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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

## Responsibilities for the financial statements and the audit

### *Responsibilities of the Directors for the financial statements*

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

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

### *Auditors' responsibilities for the audit of the financial statements*

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

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](http://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  
7 April 2020

# Consolidated income statement

for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
<b>Revenue</b>	2	<b>67,502</b>	57,479
<b>Operating profit before exceptional items</b>	3	<b>11,242</b>	9,237
Exceptional items	3	117	(541)
<b>Operating profit</b>	3	<b>11,359</b>	8,696
Share of results of associate company	14	(22)	185
Finance income	6	124	110
Finance costs	6	(168)	(144)
<b>Profit before exceptional items and income tax</b>		<b>11,176</b>	9,388
Exceptional items	3	117	(541)
<b>Profit before income tax</b>		<b>11,293</b>	8,847
Income tax expense	8	(2,136)	(1,649)
<b>Profit for the year</b>		<b>9,157</b>	7,198
<b>Profit for the year is attributable to:</b>			
<b>Owners of the Company</b>		<b>9,063</b>	7,198
<b>Non-Controlling Interests</b>		<b>94</b>	–
		<b>9,157</b>	7,198
<b>Adjusted earnings per ordinary share</b>	9	<b>81.7p</b>	69.6p
<b>Diluted adjusted earnings per ordinary share</b>	9	<b>80.9p</b>	69.0p
<b>Basic earnings per ordinary share</b>	9	<b>82.6p</b>	65.6p
<b>Diluted earnings per share</b>	9	<b>81.8p</b>	65.0p

All of the above figures relate to continuing operations.

The notes on pages 46 to 69 are an integral part of these consolidated financial statements.



# Consolidated statement of comprehensive income

for the year ended 31 December 2019

	2019 £'000	2018 £'000
<b>Other comprehensive (expense)/income</b>		
Items that will not be reclassified to profit and loss:		
Remeasurements of post employment benefit obligations net of tax	(996)	(175)
Items that may be reclassified subsequently to profit and loss:		
Currency translation differences	(16)	23
<b>Other comprehensive (expense)/income for the year</b>	<b>(1,012)</b>	<b>(152)</b>
Profit for the year	9,157	7,198
<b>Total comprehensive income for the year</b>	<b>8,145</b>	<b>7,046</b>
<b>Attributable to:</b>		
<b>Owners of the Company</b>	<b>8,051</b>	<b>7,046</b>
<b>Non Controlling Interest</b>	<b>94</b>	<b>–</b>
	<b>8,145</b>	<b>7,046</b>

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 8.

The Company has no recognised comprehensive income other than as included in its profit and loss account and therefore no separate Statement of Comprehensive Income has been presented for the Company.

# Consolidated balance sheet

as at 31 December 2019

	Note	2019 £'000	2018 £'000
<b>Assets</b>			
<b>Non current assets</b>			
Property, plant and equipment	11	19,769	14,847
Intangible assets	12	1,571	91
Investment in associate	14	–	1,732
Deferred income tax assets	21	1,103	1,107
		<b>22,443</b>	17,777
<b>Current assets</b>			
Inventories	16	11,647	9,911
Trade and other receivables	17	10,951	9,719
Other financial assets	18	3,007	3,001
Cash and cash equivalents		12,572	14,380
		<b>38,177</b>	37,011
<b>Total assets</b>		<b>60,620</b>	54,788
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	19	(11,105)	(9,561)
Current income tax liabilities		(1,022)	(1,063)
		<b>(12,127)</b>	(10,624)
<b>Non current liabilities</b>			
Lease liabilities	20	(269)	–
Deferred income tax liabilities	21	(1,040)	(754)
Retirement benefit obligations	22	(5,343)	(5,443)
		<b>(6,652)</b>	(6,197)
<b>Total liabilities</b>		<b>(18,779)</b>	(16,821)
<b>Net assets</b>		<b>41,841</b>	37,967
<b>Equity attributable to owners of the Company</b>			
Issued share capital	23	1,103	1,103
Share premium account		2,348	2,348
Treasury shares	24	(446)	(729)
Other reserves		1,802	1,703
Retained earnings		37,034	33,542
<b>Total equity</b>		<b>41,841</b>	37,967

The notes on pages 46 to 69 are an integral part of these consolidated financial statements.

The financial statements on pages 38 to 69 were approved by the Board of Directors on 7 April 2020 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 2019

	Note	2019 £'000	2018 £'000
<b>Assets</b>			
<b>Non current assets</b>			
Intangible assets	12	1,347	–
Investment in associate	14	–	1,106
Investments in subsidiaries	15	6,999	2,198
Deferred income tax assets	21	181	88
		<b>8,527</b>	<b>3,392</b>
<b>Current assets</b>			
Trade and other receivables: non current	17	2,592	7,718
Trade and other receivables: current	17	223	220
Cash at bank and in hand		303	80
		<b>3,118</b>	<b>8,018</b>
<b>Current liabilities</b>			
Trade and other payables	19	(179)	(120)
<b>Net current assets</b>		<b>2,939</b>	<b>7,898</b>
<b>Total assets less current liabilities</b>		<b>11,466</b>	<b>11,290</b>
<b>Net assets</b>		<b>11,466</b>	<b>11,290</b>
<b>Equity attributable to owners of the Company</b>			
Issued share capital	23	1,103	1,103
Share premium account		2,348	2,348
Treasury shares	24	(446)	(729)
Other reserves		541	416
Retained earnings		7,920	8,152
<b>Total equity</b>		<b>11,466</b>	<b>11,290</b>

The notes on pages 46 to 69 are an integral part of these financial statements.

The financial statements on page 38 to 69 were approved by the Board of Directors on 7 April 2020 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 £3,087,000 (2018: £4,693,000).

# Consolidated statement of changes in equity

for the year ended 31 December 2019

	Retained earnings £'000	Issued share capital £'000	Share premium account £'000	Treasury shares £'000	Other reserves £'000	Total £'000	Non controlling interest £'000	Total equity £'000
<b>Balance at 1 January 2018</b>	29,456	1,103	2,348	(579)	1,565	33,893	–	33,893
Comprehensive Income:								
Profit for the year	7,198	–	–	–	–	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)	–	(175)
Currency translation	–	–	–	–	23	23	–	23
<b>Total comprehensive income</b>	7,033	–	–	–	13	7,046	–	7,046
<b>Transactions with owners</b>								
Dividends relating to 2017 and 2018 (note 10)	(2,840)	–	–	–	–	(2,840)	–	(2,840)
Proceeds of share issue	–	–	–	3	–	3	–	3
Share based payment	137	–	–	–	125	262	–	262
Deferred tax – share based payment	(9)	–	–	–	–	(9)	–	(9)
Treasury shares (note 24)	(235)	–	–	(153)	–	(388)	–	(388)
<b>Total transactions with owners</b>	(2,947)	–	–	(150)	125	(2,972)	–	(2,972)
<b>Balance at 31 December 2018</b>	<b>33,542</b>	<b>1,103</b>	<b>2,348</b>	<b>(729)</b>	<b>1,703</b>	<b>37,967</b>	<b>–</b>	<b>37,967</b>
Comprehensive Income:								
Profit for the year	9,063	–	–	–	–	9,063	94	9,157
Other comprehensive (expense)/income:								
Depreciation transfer – gross	12	–	–	–	(12)	–	–	–
Depreciation transfer – tax	(2)	–	–	–	2	–	–	–
Re-measurement of post employment benefit obligations – net of tax	(996)	–	–	–	–	(996)	–	(996)
Currency translation	–	–	–	–	(16)	(16)	–	(16)
<b>Total comprehensive income</b>	8,077	–	–	–	(26)	8,051	94	8,145
<b>Transactions with owners</b>								
Dividends relating to 2018 and 2019 (note 10)	(3,356)	–	–	–	–	(3,356)	–	(3,356)
Proceeds of share issue	–	–	–	3	–	3	–	3
Share based payment	199	–	–	–	125	324	–	324
Deferred tax – share based payment	118	–	–	–	–	118	–	118
Treasury shares (note 24)	(280)	–	–	280	–	–	–	–
Non controlling interest on acquisition	–	–	–	–	–	–	1,902	1,902
Purchase of non controlling interest	–	–	–	–	–	–	(1,996)	(1,996)
Write off of premium on purchase of non controlling interest	(1,266)	–	–	–	–	(1,266)	–	(1,266)
<b>Total transactions with owners</b>	(4,585)	–	–	283	125	(4,177)	(94)	(4,271)
<b>Balance at 31 December 2019</b>	<b>37,034</b>	<b>1,103</b>	<b>2,348</b>	<b>(446)</b>	<b>1,802</b>	<b>41,841</b>	<b>–</b>	<b>41,841</b>



# Company statement of changes in equity

for the year ended 31 December 2019

	Retained earnings £'000	Issued share capital £'000	Share premium account £'000	Treasury shares £'000	Other reserves £'000	Total equity £'000
<b>Balance at 1 January 2018</b>	6,406	1,103	2,348	(579)	291	9,569
Comprehensive Income:						
Profit for the year	4,693	–	–	–	–	4,693
<b>Total comprehensive income</b>	4,693	–	–	–	–	4,693
<b>Transactions with owners</b>						
Dividends relating to 2017 and 2018 (note 10)	(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)
<b>Total transactions with owners</b>	(2,947)	–	–	(150)	125	(2,972)
<b>Balance at 31 December 2018</b>	<b>8,152</b>	<b>1,103</b>	<b>2,348</b>	<b>(729)</b>	<b>416</b>	<b>11,290</b>
Comprehensive Income:						
Profit for the year	3,087	–	–	–	–	3,087
<b>Total comprehensive income</b>	3,087	–	–	–	–	3,087
<b>Transactions with owners</b>						
Dividends relating to 2018 and 2019 (note 10)	(3,356)	–	–	–	–	(3,356)
Proceeds of share issue	–	–	–	3	–	3
Share based payment	199	–	–	–	125	324
Deferred tax – share based payment	118	–	–	–	–	118
Treasury shares (note 24)	(280)	–	–	280	–	–
<b>Total transactions with owners</b>	(3,319)	–	–	283	125	(2,911)
<b>Balance at 31 December 2019</b>	<b>7,920</b>	<b>1,103</b>	<b>2,348</b>	<b>(446)</b>	<b>541</b>	<b>11,466</b>

# Consolidated cash flow statement

for the year ended 31 December 2019

	2019 £'000	2018 £'000
<b>Cash flows from operating activities</b>		
Cash generated from operations (see page 45)	11,327	8,260
Interest received	124	110
Interest paid	(38)	(1)
Income tax paid	(1,845)	(1,321)
<b>Net cash generated from operating activities</b>	<b>9,568</b>	<b>7,048</b>
<b>Cash flows investing activities</b>		
Purchases of property, plant and equipment	(3,914)	(2,042)
Proceeds on disposal of property, plant and equipment	96	80
Purchases of intangible assets	(1,721)	(58)
Purchase of subsidiary, net of cash acquired	370	–
<b>Net cash used in investing activities</b>	<b>(5,169)</b>	<b>(2,020)</b>
<b>Cash flows from financing activities</b>		
Issue of ordinary shares	3	3
Purchase of treasury shares	–	(388)
Dividends paid	(3,356)	(2,840)
Purchase of Non Controlling Interest	(3,263)	–
New leases acquired	576	–
Payment of principal under finance leases	(161)	–
Net purchase of other financial assets	(5)	(1)
<b>Net cash used in financing activities</b>	<b>(6,206)</b>	<b>(3,226)</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>	<b>(1,807)</b>	<b>1,802</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>14,380</b>	<b>12,577</b>
Exchange (loss) / gain on cash and cash equivalents	(1)	1
<b>Cash and cash equivalents at the end of the year</b>	<b>12,572</b>	<b>14,380</b>



# Reconciliation of operating profit to net cash inflow from operating activities

	2019 £'000	2018 £'000
<b>Continuing operating activities</b>		
<b>Operating profit</b>	<b>11,359</b>	<b>8,696</b>
Adjustments for:		
Depreciation and amortisation	<b>2,375</b>	1,725
Negative goodwill - exceptional	<b>(117)</b>	–
Gain on disposal of property, plant and equipment	<b>(22)</b>	(91)
Charge for share based payments	<b>324</b>	262
Defined benefit pension cash contribution (see note 22)	<b>(1,430)</b>	(1,430)
Pension current service charge – non cash exceptional item	<b>–</b>	611
Changes in working capital:		
Inventory	<b>(906)</b>	(95)
Trade and other receivables	<b>304</b>	(1,039)
Trade and other payables	<b>(560)</b>	(379)
<b>Net cash inflow from operations</b>	<b>11,327</b>	<b>8,260</b>

# Notes to the financial statements

for the year ended 31 December 2019

## 1. Summary of significant accounting policies

Churchill China plc is a public limited company that is incorporated, domiciled and has its registered office in England and Wales. The Company's ordinary shares are publicly traded on AIM and it is not under the control of any single shareholder.

### Basis of Preparation

The consolidated financial statements of Churchill China plc have been prepared in accordance with International 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

IFRS 16, 'Leases', replaces IAS 17 'Leases' and became 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.

The weighted average lessee's cost of capital applied to the lease liabilities on 1 January 2019 was 9.5%. In applying the IFRS16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous leases as at 1 January 2019
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short term leases.
- Excluding initial direct costs for the measurement of the right to use asset at the date of initial application

The Group has applied the modified retrospective approach to the application of IFRS 16 and so there has been no restatement of prior year financial statements.

	2019
Operating lease commitments disclosed at 31 December 2018	319
Discounted at the incremental borrowing rate at date of application	272
Less short term contracts recognised on a straight line basis	(38)
Lease Liability recognised at 1 January 2019	234

The recognised right of use Assets associated with these liabilities relates to the following type of assets:

	31 December 2019	1 January 2019
Land and Buildings	241	234
Plant and Equipment	75	–
Motor Vehicles	104	–
Total Right of Use Assets	420	234

Right of use assets of £198,000 were acquired in the acquisition of Furlong Mills Ltd during the year. Further information regarding leases is set out in Note 25 'Leases'.

## 1. Summary of significant accounting policies continued

### *(b) New standards and interpretations not yet adopted*

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

### **Basis of consolidation**

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

The financial statements of each undertaking in the Group are prepared to the balance sheet date under FRS 101 or FRS 102. 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 Company's right to receive payment has been established.

### **Leases**

New leases are reviewed and classify in accordance with IFRS 16 based on their length and value. Right of use assets are recognised within Property, Plant and Equipment, with corresponding liabilities recognised in Other Payables.



# Notes to the financial statements

continued

## 1. Summary of significant accounting policies continued

### Operating profit and exceptional items

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

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

### Dividends

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

### Interest received/paid

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

### Retirement benefit costs

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

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

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

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

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

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

### Share based payments

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

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

### Foreign currencies

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

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

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

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

## 1. Summary of significant accounting policies continued

### Derivative financial instruments

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

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

### Taxation

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

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

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

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

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

### Property, plant and equipment

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

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

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

Freehold land is not depreciated.

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

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

### Intangible assets

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

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

Neither the Group nor the Company holds any goodwill.

### Impairment of non financial assets

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

### Inventories

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

# Notes to the financial statements

continued

## 1. Summary of significant accounting policies continued

### Fair value through profit and loss account financial assets

Fair value through profit and loss account 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.

### 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.

### Disclosure exemptions

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

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

### Other

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



## 1. Summary of significant accounting policies continued

### Financial risk management

#### Financial risk factors

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

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

#### (a) Market risk

##### (i) Currency risk

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

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

At 31 December 2019, 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 £179,000 (2018: £97,000) higher, mainly as a result of foreign exchange gains on translation of US dollar denominated trade receivables, payables and cash balances. Equity would have been a further £22,000 (2018: £22,000) 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 £717,000 (2018: £642,000) higher, mainly as a result of foreign exchange gains on translation of Euro denominated trade receivables and cash balances. There would have been no substantial other changes in Equity.

##### (ii) Cash flow and fair value interest rate risk

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

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

At 31 December 2019, had the interest rates achieved been 10% higher with all other variables held constant then post tax profit for the year would have been £11,000 (2018: £10,000) 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. Cash and cash equivalents are as follows:

	Credit rating	2019 £'000	2018 £'000
Lloyds Bank plc	Aa3	11,213	11,295
HSBC Bank plc	Aa3	1,030	–
Santander UK plc	Baa1	–	3,039
Other	Min A	329	46
		<b>12,572</b>	<b>14,380</b>

Other financial assets are as follows:

	Credit rating	2019 £'000	2018 £'000
Santander UK plc	Baa1	2,253	2,750
National Westminster Bank plc	A3	754	251
		<b>3,007</b>	<b>3,001</b>

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 17).

#### (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

## 1. Summary of significant accounting policies 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 three 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.

### 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 £246,000. 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 £242,000.

#### (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.

#### (c) Going Concern

The Group has considered several scenarios in relation to the potential scale and impact of COVID-19. This review has included the analysis of the impact of different levels of reduction in revenue, different periods of effect, alternative operational responses and cost reduction plans, the high level of cash and deposits held by the Group and additional available financing. These reviews indicate that it is reasonable for the business to expect to continue in operational existence. Please also refer to the Chairman's Statement on page 9 and 10 and Corporate Governance section on page 24 of the Strategic Report.

## 2. Segmental analysis

The Group has previously reported on Hospitality and Retail segments. However, due to the acquisition of Furlong Mills Ltd. during the year ended 31 December 2019 and the size of Retail sales in the Group, the Group now reports to the Chief Operating Decision Maker, the Board, on two distinct segments of revenue.

The Group's reportable segments are as follows; Ceramics, the sale of ceramic tableware and complementary items; and Materials, the sale of materials for the production of ceramics, predominantly to the tableware industry.

	2019 £'000	2018 £'000
<b>Market segment – Revenue</b>		
Ceramics	62,681	57,479
Materials	7,787	–
	<b>70,468</b>	57,479
Intra Group revenue	(2,966)	–
Group Revenue	<b>67,502</b>	57,479

	2019 £'000	2018 £'000
<b>Geographical segment – Revenue</b>		
United Kingdom	28,460	23,008
Rest of Europe	24,477	21,306
USA	7,232	6,054
Rest of the World	7,333	7,111
	<b>67,502</b>	57,479

The profits of the business are allocated as follows:

	2019 £'000	2018 £'000
<b>Operating profit before exceptional items</b>		
Ceramics	10,840	9,237
Materials	402	–
	<b>11,242</b>	9,237
<b>Exceptional items</b>		
Ceramics	–	(541)
Materials	117	–
	<b>117</b>	(541)
<b>Operating Profit after exceptional items</b>		
Ceramics	10,840	8,696
Materials	519	–
	<b>11,359</b>	8,696
<b>Unallocated items</b>		
Share of results of associate	(22)	185
Finance Income	124	110
Finance costs	(168)	(144)
<b>Profit before income tax</b>	<b>11,293</b>	8,847

	2019 £'000	2018 £'000
<b>Segmental Assets</b>		
Ceramics	54,592	54,788
Materials	6,028	–
	<b>60,620</b>	9,237
<b>Segmental Liabilities</b>		
Ceramics	17,379	16,821
Materials	1,400	–
	<b>18,779</b>	16,821

Capital expenditure was made as follows:

Ceramics £5,379,000 (2018: £2,079,000), Materials £294,000 (2018: £nil)



# Notes to the financial statements

continued

## 3. Expenses by nature

	2019 £'000	2018 £'000
Changes in inventories of finished goods and work in progress	(575)	(107)
Raw materials used	6,531	4,736
Purchase of goods for resale	4,286	4,744
Employee benefit expense (note 5)	23,850	21,146
Pension equalisation charges - exceptional	–	611
Other external charges	20,230	16,131
Depreciation and amortisation charges	2,375	1,725
Negative goodwill on acquisition - exceptional	(117)	–
Profit on disposal of property, plant and equipment	(22)	(21)
Profit on disposal of property, plant and equipment - exceptional	–	(70)
Foreign exchange gain	(415)	(112)
<b>Total cost of sales, distribution costs and administrative expenses</b>	<b>56,143</b>	<b>48,783</b>

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

During 2018, changes to the law in relation to the calculation of Guaranteed Minimum Pensions (GMP's) 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 exceptional charge of £611,000 was provided for in 2018 reflecting the cumulative effect of these changes. A related deferred tax credit of £104,000 was also treated as exceptional. Additionally sums previously provided for costs relating to the disposal of property which were no longer required were released, generating an exceptional credit to profit of £70,000. A related £20,000 deferred tax charge was also treated as exceptional.

## 4. Average number of people employed

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

	2019 Number	2018 Number
<b>By activity</b>		
Production and warehousing	501	430
Sales and administration	221	201
	<b>722</b>	<b>631</b>

The Company had no employees other than Directors (2018: none).

## 5. Employee benefit expense

	2019 £'000	2018 £'000
<b>Staff costs (for the employees shown in note 4)</b>		
Wages and salaries	20,774	18,367
Social security costs	2,000	1,717
Defined contribution pension cost (see note 22)	619	563
Other pension costs (see note 22)	133	237
Share options granted to directors and employees (see note 23)	324	262
	<b>23,850</b>	<b>21,146</b>
Defined benefit pension cost – exceptional (see note 22)	–	611
	<b>23,850</b>	<b>21,757</b>

### 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 (2018: nil).

## 6. Finance income and costs

	2019 £'000	2018 £'000
Interest income on cash and cash equivalents	124	110
Finance income	124	110
Interest on defined benefit schemes (note 22)	(130)	(143)
Other interest	(38)	(1)
Finance costs	(168)	(144)
Net finance cost	(44)	(34)

## 7. Auditor's remuneration

	2019 £'000	2018 £'000
During the year the Group obtained the following services from the Company's auditor:		
Fees payable to the Company's auditors for the audit of the Company and consolidated financial statements (Company £4,000, 2018: £3,000)	40	10
Additional fees payable to the Company's auditors for other services:		
The audit of the Company's subsidiaries	124	82
Total fees payable to the Group's auditors	164	92

## 8. Income tax expense

Group	2019 £'000	2018 £'000
Current tax – current year	1,754	1,609
– adjustment in respect of prior periods	(25)	(57)
	1,729	1,552
Deferred tax (note 21)		
Current year	407	97
Income tax expense	2,136	1,649

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.

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

	2019 £'000	2018 £'000
<b>Profit before income tax</b>	<b>11,291</b>	<b>8,847</b>
Tax calculated at domestic tax rates applicable to profits in the respective countries	2,145	1,680
Expenses not deductible for tax purposes	20	16
Adjustment in respect of prior periods	(25)	(57)
Treatment of tax on share of profit of associate company	12	(35)
Other	(16)	45
<b>Tax charge</b>	<b>2,136</b>	<b>1,649</b>

The weighted average applicable tax rate was 19.0% (2018: 19.0%).

During the year a credit of £204,000 (2018: credit of £37,000) in relation to deferred tax arising from actuarial gains and losses on the Group's defined benefit pension obligation and a credit of £118,000 (2018: charge of £9,000) in relation to deferred taxation on share based payments were adjusted directly within equity.

# Notes to the financial statements

continued

## 9. Earnings per ordinary share

Basic earnings per ordinary share is based on the profit after income tax and on 10,974,010 (2018: 10,966,996) 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 3)

	2019 Pence per share	2018 Pence per share
Basic earnings per share (Based on earnings £9,063,000 (2018: £7,198,000))	82.6	65.6
(Less)/add: Exceptional Items: £117,000 (2018: (£437,000))	(0.9)	4.0
Adjusted earnings per share (based on adjusted earnings £8,966,000 (2018: £7,635,000))	81.7	69.6

Diluted earnings per ordinary share is based on the profit after income tax and on 11,076,990 (2018: 11,069,061) ordinary shares, being the weighted average number of ordinary shares in issue during the year of 10,974,010 (2018: 10,966,996) increased by 102,980 (2018: 102,065) 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 3)

	2019 Pence per share	2018 Pence per share
Diluted basic earnings per share (Based on earnings £9,063,000 (2018: £7,198,000))	81.8	65.0
(Less)/add: Exceptional Items: £117,000 (2018: (£437,000))	(0.9)	4.0
Diluted adjusted earnings per share (based on adjusted earnings £8,966,000 (2018: £7,635,000))	80.9	69.0

## 10. Dividends

The dividends paid in the year were as follows:

	2019 £'000	2018 £'000
<b>Ordinary</b>		
Final dividend 2018 20.3p (Final dividend 2017: 17.2p) per 10p ordinary share	2,224	1,886
Interim 2019 10.3p per 10p ordinary share paid (Interim 2018: 8.7p)	1,132	954
	<b>3,356</b>	<b>2,840</b>

### The Directors now recommend payment of the following dividend:

Ordinary dividend:

Final dividend 2019 nil (2018: 20.3p) per 10p ordinary share	–	2,224
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Dividends on treasury shares held by the Company are waived.



## 11. Property, plant and equipment

The Company has no property, plant and equipment (2018: none). Details of property, plant and equipment relating to the Group are as follows:

Group	Freehold land and buildings £'000	Plant and Machinery £'000	Motor vehicles £'000	Fixtures and fittings £'000	Total £'000
<b>At 1 January 2018</b>					
Cost	12,898	23,600	818	1,718	40,229
Accumulated depreciation	(3,173)	(19,376)	(425)	(1,518)	(25,687)
<b>Net book amount</b>	<b>9,725</b>	<b>4,224</b>	<b>393</b>	<b>200</b>	<b>14,542</b>
<b>Year ended 31 December 2018</b>					
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)
<b>Closing net book amount</b>	<b>9,476</b>	<b>4,478</b>	<b>395</b>	<b>499</b>	<b>14,847</b>
<b>At 31 December 2018</b>					
Cost	12,898	25,030	795	2,131	40,854
Accumulated depreciation	(3,423)	(20,552)	(400)	(1,632)	(26,007)
<b>Net book amount</b>	<b>9,475</b>	<b>4,478</b>	<b>395</b>	<b>499</b>	<b>14,847</b>
<b>Year ended 31 December 2019</b>					
Opening net book amount	9,475	4,478	395	499	14,847
Additions of assets acquired through acquisition	1,046	2,130	–	–	3,176
Additions	930	2,665	199	163	3,957
Disposals	–	(1)	(71)	–	(72)
Depreciation charge	(316)	(1,532)	(117)	(174)	(2,139)
<b>Closing net book amount</b>	<b>11,135</b>	<b>7,740</b>	<b>406</b>	<b>488</b>	<b>19,769</b>
<b>At 31 December 2019</b>					
Cost	17,004	33,097	739	2,293	53,133
Accumulated depreciation	5,869	25,357	333	1,805	33,364
<b>Net book amount</b>	<b>11,135</b>	<b>7,740</b>	<b>406</b>	<b>488</b>	<b>19,769</b>

Additions include the impact of £234,000 of Right of use assets on 1 January 2019 now included within the Statement of Financial Position following the implementation of IFRS 16. See Note 25 Leases for further information.

Included within Property, Plant and Equipment is £1,739,000 classified in Plant and Machinery and £670,000 classified in Land and Buildings which meet the classification of Assets In the Course of Construction.

# Notes to the financial statements

continued

## 12. Intangible assets

The Company acquired intangible assets of £1,500,000 relating to Dudson trademarks acquired during the year. The net book value of Intangibles held by the Company is £1,347,000 (2018: £nil).

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

Group	Computer software £'000	Trademarks £'000	Total £'000
<b>At 1 January 2018</b>			
Cost	925	–	925
Accumulated amortisation	(824)	–	(824)
<b>Net book amount</b>	<b>101</b>	<b>–</b>	<b>101</b>
<b>Year ended 31 December 2018</b>			
Opening net book amount	101	–	101
Additions	58	–	58
Amortisation charge	(68)	–	(68)
<b>Closing net book amount</b>	<b>91</b>	<b>–</b>	<b>91</b>
<b>At 31 December 2018</b>			
Cost	159	–	159
Accumulated amortisation	(68)	–	(68)
<b>Net book amount</b>	<b>91</b>	<b>–</b>	<b>91</b>
<b>Year ended 31 December 2018</b>			
Opening net book amount	91	–	91
Additions	216	1,500	1,716
Amortisation charge	(83)	(153)	(236)
<b>Closing net book amount</b>	<b>224</b>	<b>1,347</b>	<b>1,571</b>
<b>At 31 December 2019</b>			
Cost	375	1,500	1,875
Accumulated amortisation	(151)	(153)	(304)
<b>Net book amount</b>	<b>224</b>	<b>1,347</b>	<b>1,571</b>

## 13. Acquisition of Subsidiary

On 25 February 2019 the Group acquired a further 9.5% of the issued ordinary share capital of Furlong Mills Ltd. for a total consideration of £454,000. Churchill's shareholding in Furlong Mills prior to the purchase was 46.1% and it had previously been accounted for as an associate company. As the February purchase increased Churchill's overall holding to 55.6% of the issued ordinary share capital and the power to control the company it has been accounted for as a subsidiary from that date. The acquisition of the additional shareholding was from a financially distressed company which when compared to the fair value of identifiable assets disclosed below, resulted in a bargain purchase. The negative goodwill arising has been recognised within the consolidated income statement as an exceptional item.

Furlong Mills is a ceramic materials manufacturer based in Stoke on Trent, providing processed clay body and glazes to Churchill and to other ceramic manufacturers. The acquisition supports the Group's long term strategy of innovation and technical performance in Hospitality markets, whilst also securing a key part of the supply chain for the future.

### 13. Acquisition of Subsidiary continued

The amounts recognised at fair value on acquisition in respect of the identifiable assets acquired and liabilities assumed are as follows:

	£'000
Property, Plant and Equipment	3,176
Inventory	830
Trade and other receivables	1,891
Cash and cash equivalents	824
Trade and other payables	(2,258)
Current income tax liabilities	(75)
Deferred Income tax liabilities	(205)
<b>Total identifiable assets</b>	<b>4,183</b>
Negative goodwill	(117)
Non controlling Interest at acquisition	(1,902)
<b>Total consideration</b>	<b>2,164</b>
Satisfied by:	
Cash and cash equivalents	454
Fair value of associate at acquisition	1,710
<b>Total Consideration</b>	<b>2,164</b>

On 30 September 2019, the Group acquired the remaining 44.4% of the issued share capital of Furlong Mills Ltd from Portmeirion Group plc for a total consideration of £3,263,000. In accordance with IFRS 10 Consolidated Financial Statements, the further increase in shareholding resulted in no changes to the recognised negative goodwill and no new information has subsequently arisen that has been deemed to cause a measurement period adjustment. The Non Controlling Interest created in the 25 February 2019 acquisition was removed by the second acquisition of the remaining stake in Furlong Mills Ltd. on 30 September 2019.

Furlong Mills contributed £4,821,000 of revenue and £519,000 of profit for the period between the date of acquisition and the balance sheet date. If the acquisition had been completed on the first date of the financial year, the contribution to Group revenues for the period would have been £6,117,000 and the contribution to Group profit would have been £651,000.

### 14. Investment in associate

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
<b>Cost</b>				
At 1 January	2,159	1,974	1,106	921
Share of (loss)/profit	(22)	185	(22)	185
Acquisition of subsidiary	(2,137)	–	(1,084)	–
<b>At 31 December</b>	<b>–</b>	<b>2,159</b>	<b>–</b>	<b>1,106</b>
<b>Impairment</b>				
At 1 January and 31 December	427	427	–	–
Acquisition of subsidiary	(427)	–	–	–
<b>At 31 December</b>	<b>–</b>	<b>427</b>	<b>–</b>	<b>–</b>
<b>Net book value</b>				
<b>Closing net book amount</b>	<b>–</b>	<b>1,732</b>	<b>–</b>	<b>1,106</b>

During 2018, the Group's shareholding in Furlong Mills Ltd. was accounted for as an investment in an associate as at the prior year reporting date, the Group held 46.1% of the share capital. In February 2019, the shareholding was further increased to 55.6% and was accounted for as a subsidiary from this date due to this then being controlled by the Group. For further information on the acquisition of Furlong Mills Ltd., please see Note 13.



# Notes to the financial statements

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## 15. Investment in subsidiaries

### Company

	2019 £'000	2018 £'000
<b>Cost or valuation</b>		
At 1 January	2,630	2,630
Acquisition of subsidiary	4,801	–
<b>At 31 December</b>	<b>7,431</b>	2,630
<b>Impairment</b>		
At 1 January and 31 December	432	432
<b>Net book value</b>		
<b>At 31 December</b>	<b>6,999</b>	2,198

### Interests in Group undertakings

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

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

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

\* 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

## 16. Inventories

The Company has no inventory (2018: none). Details of inventory relating to the Group are as follows:

	2019 £'000	2018 £'000
Raw materials	993	53
Work in progress	1,569	1,532
Finished goods	9,085	8,326
	<b>11,647</b>	9,911

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 £37,813,630 (2018: £29,841,000). The movement in impairment provisions against the value of inventory in relation to slow moving and obsolete items during the year was an increase for the Group of £158,000 (2018: increase of £872,000).

## 17. Trade and other receivables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
<b>Trade receivables</b>	<b>10,370</b>	9,718		–
Less: provision for impairment of trade receivables	(454)	(308)		–
<b>Trade receivables – net</b>	<b>9,916</b>	9,410		–
Prepayments	547	309		–
Derivative financial instruments	488	–	–	–
Receivables from related parties (note 27)	–	–	2,815	7,938
	<b>10,951</b>	9,719	<b>2,815</b>	7,938
Less non-current portion: loans to related parties	–	–	2,592	7,718
<b>Current portion</b>	<b>10,951</b>	9,719	<b>223</b>	220

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

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

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

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

As of 31 December 2019, trade receivables of £8,187,000 (2018: £7,564,000) were fully performing.

As of 31 December 2019, trade receivables of £651,000 (2018: £558,000) were past due but not impaired. The ageing of these receivables is as follows:

	2019 £'000	2018 £'000
Up to 3 months	645	543
3 to 6 months	2	8
Over 6 months	4	7
	<b>651</b>	558

As of 31 December 2019 trade receivables with a gross value of £1,532,000 (2018: £1,596,000) were impaired and provided for. The amount of provision for 31 December 2019 was £454,000 (2018: £308,000). 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:

	2019 £'000	2018 £'000
Up to 3 months	1,440	1,589
3 to 6 months	92	–
Over 6 months	–	7
	<b>1,532</b>	1,596

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

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

	2019 £'000	2018 £'000
At 1 January	308	269
Increase in provision for receivables impairment	144	28
Written off during the year	2	11
<b>At 31 December</b>	<b>454</b>	308

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

# Notes to the financial statements

continued

## 17. Trade and other receivables continued

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

	2019 £'000	2018 £'000
Pounds	7,180	5,811
Euros	3,020	3,012
US dollars	751	896
	<b>10,951</b>	<b>9,719</b>

During the year the Group realised gains of £144,000 (2018: gains of £29,000) on settled forward option contracts that have been recognised in the Income Statement and as at 31 December held foreign currency exchange contracts for the sale of Euro of £10,528,000 (2018: £8,875,000) and the sale of US dollars of £1,138,000 (2018: £500,000). These contracts are held at their fair value as financial instruments classified as fair value through profit and loss with a gain of £488,000 (2018: loss of £42,000) recognised in relation to the contracts outstanding at the year end.

### Company

As of 31 December 2019, Company trade receivables of £nil (2018: £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:

	2019 £'000	2018 £'000
Pounds	2,701	7,827
US dollars	114	111
	<b>2,815</b>	<b>7,938</b>

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.

## 18. Other financial assets

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Other financial assets	3,007	3,001	–	–

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.

## 19. Trade and other payables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Trade payables	4,140	3,823	–	–
Amounts due to related parties	–	114	13	13
Social security and other taxes	921	635	–	91
Accrued expenses	5,898	4,989	166	16
Lease liabilities	146	–	–	–
	<b>11,105</b>	<b>9,561</b>	<b>179</b>	<b>120</b>

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

## 20. Lease liabilities

	Group	
	2019 £'000	2018 £'000
Lease liabilities	269	–
	<b>269</b>	<b>–</b>

Further analysis relating to the Right of use liabilities acquired is included in Note 25.

## 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	2019 £'000	2018 £'000
<b>Deferred tax assets:</b>		
– Deferred tax asset to be recovered after more than 12 months	766	777
– Deferred tax asset to be recovered within 12 months	337	330
	<b>1,103</b>	<b>1,107</b>
<b>Deferred tax liabilities:</b>		
– Deferred tax liabilities to be recovered after more than 12 months	(875)	(715)
– Deferred tax liabilities to be recovered within 12 months	(165)	(39)
	<b>(1,040)</b>	<b>(754)</b>
<b>Deferred tax asset</b>	<b>63</b>	<b>353</b>

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

	2019 £'000	2018 £'000
At 1 January	353	422
Income statement charge (note 9)	(407)	(97)
Tax credits relating to components of comprehensive income	204	37
Amounts acquired	(205)	–
Tax credited / (charged) directly to equity (note 23)	118	(9)
<b>At 31 December</b>	<b>63</b>	<b>353</b>

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

	Accelerated tax depreciation £'000	Land and buildings revaluation £'000	Other £'000	Total £'000
<b>Deferred tax liabilities</b>				
At 1 January 2018	581	194	–	775
Credited to the income statement	(19)	(2)	–	(21)
<b>At 31 December 2018</b>	<b>562</b>	<b>192</b>	<b>–</b>	<b>754</b>
Amounts acquired	205	–	–	205
Charged / (credited) to the income statement	60	(2)	23	81
<b>At 31 December 2019</b>	<b>827</b>	<b>190</b>	<b>23</b>	<b>1,040</b>

	Accelerated tax depreciation	Retirement benefit obligation	Other	Total
<b>Deferred tax assets</b>				
At 1 January 2018	(85)	(1,004)	(108)	(1,197)
(Credited)/charged to the income statement	(1)	115	4	118
Tax credits relating to components of comprehensive income	–	(37)	–	(37)
Charged directly to equity	–	–	9	(28)
<b>At 31 December 2018</b>	<b>(86)</b>	<b>(926)</b>	<b>(95)</b>	<b>(1,107)</b>
Charged to the income statement	86	222	18	326
Tax credits relating to components of comprehensive income	–	(204)	–	(204)
Credited directly to equity	–	–	(118)	(118)
<b>At 31 December 2019</b>	<b>–</b>	<b>(908)</b>	<b>(195)</b>	<b>(1,103)</b>



# Notes to the financial statements

continued

## 21. Deferred income tax continued

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

	2019 £'000	2018 £'000
Fair value reserves in shareholders' equity:		
Tax on re-measurement of defined pension benefits	(204)	(37)
Tax on share based payments	(118)	9
	(322)	(28)

Deferred income tax of £2,000 (2018: £2,000) was transferred from other reserves to retained earnings. This represents deferred tax on the difference between the actual depreciation on buildings and the equivalent depreciation based on the historical cost of buildings.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has not recognised deferred income tax assets of £866,000 (2018: £866,000) in respect of capital losses amounting to £5,092,000 (2018: £5,092,000) that can be carried forward against future capital gains.

### Company

Deferred tax assets of £181,000 (2018: £88,000) are recognised relating to short term timing differences and timing differences on share based payments.

## 22. Retirement benefit obligations

	2019 £'000	2018 £'000
<b>Balance sheet obligations</b>		
Pension benefits	5,343	5,443
<b>Income statement charge</b>		
Pension benefits	751	800
Pension benefits: Past service charge - exceptional	–	611
Finance costs	130	143

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

Scheme	2019	2018	Nature
Churchill Group Retirement Benefit Scheme	Nil	£611,000	Defined benefit plan. Closed to new entrants in 1999 and to which the accrual of future benefits ceased in 2006
Churchill China 1999 Pension Scheme	£307,000	£312,000	Defined contribution plan
Churchill China 2006 Group Personal Pension Plan	£187,000	£184,000	Defined contribution plan
Churchill China 2019 Pension Scheme	£25,000	–	Defined contribution (Master Trust)
Furlong Mills Ltd. Pension Plan	£27,000	Nil	Defined contribution plan
Churchill China section of the Peoples Pension	£99,000	£67,000	Defined contribution auto enrolment scheme
Furlong Mills Ltd. section of the Now Pension scheme	£14,000	Nil	Defined contribution auto enrolment scheme

The assets of the schemes are held separately from those of the Group. The total pension cost for the Group was £739,000 (2018: £1,411,000) including an exceptional charge of £611,000).

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 £66,000 (2018: £28,000). During the year, the Group consolidated the Churchill China 1999 Pension scheme, the Churchill Group Personal Pension Plan and the Churchill section of the Peoples Pension into the Churchill China 2019 Pension Scheme.

During 2018, changes to the law in relation to the calculation of Guaranteed Minimum Pensions (GMP's) 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 exceptional charge of £611,000 was provided for in 2018 reflecting the cumulative effect of these changes. There have been no such changes in the current year.

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 (2018: £1,430,000) was made in respect of the amortisation of past service liabilities during the year.

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

## 22. Retirement benefit obligations continued

The deficit in the Scheme is a liability of the Group as Scheme employer and the deficit amortisation payments aimed at removing this deficit may vary dependant on changes in the assumptions underlying the calculation of liabilities and actual experience. The Group takes into account the level of present and future payments into the Scheme along with capital expenditure and other investments, when considering the allocation of available cash flow and setting dividend policy. As previously stated, payments into the Scheme were increased by 100% in 2016. In 2018 dividends paid increased by 17% and have increased by 17% in 2019

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

	2019 £'000	2018 £'000
Present value of funded obligations	53,339	47,998
Fair value of plan assets	(47,996)	(42,555)
<b>Liability in balance sheet</b>	<b>5,343</b>	<b>5,443</b>

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

	2019 £'000	2018 £'000
At 1 January	47,998	51,125
Interest cost	1,408	1,321
Past service cost - exceptional	–	611
Experience losses on liabilities	66	70
Re-measurements from change in demographic and financial assumptions	5,193	(3,871)
Benefits paid	(1,326)	(1,258)
<b>At 31 December</b>	<b>53,339</b>	<b>47,998</b>

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

	2019 £'000	2018 £'000
At 1 January	42,555	45,218
Expected return on plan assets	1,278	1,178
Re-measurement of return on plan assets excluding amounts included in interest expense	4,059	(4,013)
Employer contributions	1,430	1,430
Benefits paid	(1,326)	(1,258)
<b>At 31 December</b>	<b>47,996</b>	<b>42,555</b>

Plan assets are comprised as follows:

	2019 £'000		2018 £'000	
Equity investment funds	21,594	45%	19,043	45%
Absolute return funds	6,070	13%	5,616	13%
Other investment funds	2,110	4%	1,876	4%
Debt investments	16,032	33%	13,998	33%
Cash and cash equivalents	2,190	5%	2,022	5%
	<b>47,996</b>		<b>42,555</b>	

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:

	2019 £'000	2018 £'000
Interest cost on defined benefit plans	130	143

The actual return on plan assets was a gain of £5,337,000 (2018: gain of £2,835,000).

Re-measurement losses of £1,200,000 (2018: losses of £212,000) 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 £18,037,000 (2018: £16,837,000).

# Notes to the financial statements

continued

## 22. Retirement benefit obligations continued

The principal actuarial assumptions used were as follows:

### Pension benefits

	2019 % per annum	2018 % per annum
Discount rate	2.1%	2.95%
Inflation rate – RPI	3.0%	3.2%
– CPI	2.0%	2.2%
Rate of increase of pensions in payment	2.0%	2.2%
Rate of increase of deferred pensions	2.1%	2.2%

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:

	2019 Years	2018 Years
Male	20.4	20.9
Female	22.3	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:

	2019 Years	2018 Years
Male	21.7	22.6
Female	23.8	24.8

### Risks

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

#### Asset volatility

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

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

#### Changes in bond yields which impact discount rate

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

#### Inflation risk

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

#### Life expectancy

The plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's 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 effects of varying certain assumptions within the calculation of retirement benefit obligations.

The effect of a 0.25% decrease in the discount rate to 1.85% would be to increase scheme liabilities by £2,347,000 (4.4%).

The effect of a 0.25% increase in CPI inflation to 3.0% would increase scheme liabilities by £1,920,000 (3.6%).

The effect of a 1 year increase to life expectancy would increase scheme liabilities by £1,707,000 (3.2%).

The amount of net deficit on retirement benefit schemes is also dependant 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 2019 and 31 December 2019	11,030	1,103	2,348

The total authorised number of ordinary shares is 14,300,000 (2018: 14,300,000) with a par value of 10p (2018: 10p) per share. All issued shares are fully paid.

### Share option schemes

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

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

### Long term incentive plan

Grant date	4 May 2019	4 May 2018	5 May 2017	16 May 2016
Share price at grant date	1,605p	1,117.5p	1047.5p	780p
Exercise price	10p	10p	10p	10p
Number of employees	3	3	3	3
Shares under option	31,904	35,133	36,601	30,984
Vesting period (years)	3	3	3	3
Expected volatility	15%	10%	15%	15%
Option life (years)	10	10	10	10
Expected life (years)	3	3	3	3
Risk free rate	0.9%	1.4%	1.4%	1.4%
Expected dividends expressed as a dividend yield	1.8%	2.4%	2.5%	2.5%
Fair value per option	1,325p	901p	847p	643p

The following options exercisable over ordinary shares were outstanding at 31 December 2019 under the Long Term Incentive Plan:

Number of shares	2019	2018	Exercise price	Date from which exercisable	Expiry date
May 2016 Grant	–	30,984	10p	May 2019	May 2026
May 2017 Grant	36,601	36,601	10p	May 2020	May 2027
May 2018 Grant	35,133	35,133	10p	May 2021	May 2028
May 2019 Grant	31,904	–	10p	May 2022	May 2029
	103,638	102,718			

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 2019 is set out below.

	2019	2019	2018	2018
	Number '000	Weighted average exercise price	Number '000	Weighted average exercise price
Outstanding at 1 January	102,718	10.0p	98,512	10.0p
Granted	31,904	10.0p	35,133	10.0p
Exercised	(30,984)	10.0p	(30,927)	10.0p
Outstanding at 31 December	103,638	10.0p	102,718	10.0p
Exercisable at 31 December	–	–	–	–



# Notes to the financial statements

continued

## 23. Issued share capital and share premium account continued

There were 31,904 share options granted during the year (2018: 35,133).

	2019	2019	2019	2019	2018	2018	2018	2018
	Weighted average exercise price	Number '000	Weighted average remaining life	Weighted average remaining life (contractual)	Weighted average exercise price	Number '000	Weighted average remaining life	Weighted average remaining life (contractual)
0 – 50p	10p	103,638	1.3	8.3	10p	102,718	1.5	8.5

The weighted average price for options exercised in the period was 10p (2018: 10p). The total charge during the year for employee share based payment plans was £324,000 (2018: £263,000) before tax, all of which related to equity settled share based payment transactions.

## 24. Treasury shares

Group and Company	£'000
As at 31 December 2018	729
Reissue of shares	(3)
Transfer to retained earnings	(280)
<b>As at 31 December 2019</b>	<b>446</b>

During the year the Group re-purchased nil (2018: 38,000) 10p ordinary shares and re-issued 30,984 (2018: 30,927) under employee share option schemes. The Group currently holds 43,938 (2018: 74,922) shares in Treasury.

## 25. Leases

As set out in Note 1, IFRS 16 replaces IAS 'Leases', updating the definition, recognition and measurement of Leases, resulting in the majority of leases being accounted for within Property, Plant and Equipment and a connected liability included with Other Payables. Due to the modified retrospective approach being applied, there has no restatement of prior year financial statements.

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

	2019 £'000
<b>Right of Use assets</b>	
Land and Buildings	241
Plant & Equipment	75
Motor Vehicles	104
<b>Total</b>	<b>420</b>

	2019 £'000
<b>Lease Liabilities</b>	
Land and Buildings	251
Plant & Equipment	78
Motor Vehicles	86
<b>Total</b>	<b>415</b>

The Group has recognised amounts in the Income Statement for Right of Use Assets included within Fixed Assets

	2019 £'000
<b>Depreciation charge on Right of Use Assets</b>	
Land and Buildings	89
Plant & Equipment	37
Motor Vehicles	10
<b>Total</b>	<b>135</b>

The total cash outflow for Leases in the year was £199,000.

## 26. Commitments

### Capital commitments

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

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Property, plant and equipment	1,605	729	–	–
Intangible assets: Computer software	24	95	–	–
	1,629	824	–	–

## 27. 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.

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

	2019 £'000	2018 £'000
<b>Subsidiaries</b>		
Management charge to Churchill China, Inc	10	10
Dividend received from Churchill China (UK) Limited	3,750	3,750
Loans repaid by Churchill China (UK) Limited	(3,195)	(2,147)
Loans outstanding (mainly from Churchill China (UK) Limited)	4,731	7,926

## 28. 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, other financial assets and trade and related party receivables are classified as amortised cost, with the exception of derivative financial instruments classified as fair value through profit and loss, in both 2019 and 2018, as disclosed in note 17.

All amounts shown in notes 19 and 20 are financial liabilities measured at amortised cost.

# Five year financial record

	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000
<b>Revenue</b>	46,829	51,102	53,530	57,479	<b>67,502</b>
<b>Operating profit before exceptional item</b>	4,959	6,398	7,460	9,237	<b>11,242</b>
Exceptional items	–	–	315	(541)	<b>117</b>
<b>Operating profit</b>	4,959	6,398	7,775	8,696	<b>11,359</b>
Share of results of associate net of impairment	135	157	159	185	<b>(22)</b>
Finance cost	(80)	(40)	(159)	(34)	<b>(44)</b>
<b>Profit before exceptional items and income tax</b>	5,014	6,515	7,460	9,388	<b>11,176</b>
Exceptional items	–	–	315	(541)	<b>117</b>
<b>Profit before exceptional item and income tax</b>	5,014	6,515	7,775	8,847	<b>11,293</b>
Income tax expense	(928)	(1,230)	(1,361)	(1,649)	<b>(2,136)</b>
<b>Profit for the year</b>	4,086	5,285	6,414	7,198	<b>9,157</b>
<b>Dividends paid</b>	1,816	2,085	2,433	2,840	<b>3,356</b>
<b>Net assets employed</b>	30,925	28,625	33,893	37,967	<b>41,841</b>
<b>Ratios</b>					
Operating margin*	10.6%	12.5%	13.9%	16.1%	<b>16.7%</b>
Earnings before interest, tax, depreciation and amortisation (£000)	6,454	8,114	9,081	10,941	<b>13,594</b>
Basic earnings per share (p)	37.3	48.2	58.4	65.6	<b>82.6</b>
Adjusted earnings per share (p)*	37.3	48.2	55.3	69.6	<b>81.7</b>

\* Before exceptional items

## Shareholder Notes



## Shareholder Notes





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