



CHURCHiLL



INTERIM REPORT 2019

# Key Highlights

## Financial

- Operating profit before exceptional items up 30% to £4.2m (2018 H1: £3.3m)
  - including contribution of £0.2m from acquisition of Furlong Mills
- Profit before exceptional items and tax up 27% to £4.2m (2018 H1: £3.3m)
- Reported profit before tax after exceptional items £4.3m (2018 H1: £3.3m)
- Adjusted earnings per share up 24% to 30.4p (2018 H1: 24.4p)
- Basic earnings per share 31.3p (2018 H1: 24.4p)
- Interim dividend up 18% to 10.3p (2018 H1: 8.7p)
- Cash generated from operations £2.4m (2018 H1: £1.7m)

## Business

- Total revenues up 17% at £31.9m (2018 H1: £27.2m)
  - including £2.0m from acquisition of Furlong Mills
- Ceramics (like for like) revenue growth 10% (2018 H1: 6%)
- Export revenues up 13%
- Increased sales of Hospitality added value product
- Higher levels of investment in capital expenditure, acquisition of controlling interest in Furlong Mills and purchase of products and brand from Dudson
- Performance continues long term growth trend

### Alan McWalter

Chairman of Churchill China, commented:

**“Churchill has been substantially re-positioned as a business over the past five years. We have emphasised the development of differentiated high margin products in Hospitality and exited from markets where we did not have a competitive advantage. We believe we offer a technical performance product to attractive markets worldwide with a high level of service. We have a well invested business supported by a strong balance sheet.”**

# Chairman's Statement

## Introduction

I am pleased to report another strong performance in the first half of 2019, continuing the progress made over the last five years in re-positioning the business as a supplier of added value performance ceramics to the Hospitality industry. Our organic growth has remained strong with further development of our export markets and increase in the proportion of differentiated, added value product.

Alongside delivering an improvement in short term performance, we have accelerated investment in the future of our business with commitment to the expansion of our UK manufacturing facilities. The purchase of product and brand assets from Dudson provides a clear opportunity to further develop our business, bringing new product ranges and widening our global distribution. Finally, our acquisition of additional equity in Furlong Mills secures a major part of our material supply base in the short term and in the longer term brings further development options.

## Financial Review

Total revenues increased by 17% to £31.9m (2018 H1: £27.2m) with further strong growth in Hospitality ceramics export revenues and the inclusion of revenues from Furlong Mills of £2.0m for four months of the period.

Ceramic revenue growth, excluding the effects of the acquisition of Furlong Mills, was 10% (2018 H1: 6%) with sales rising to £29.9m (2018 H1: £27.2m). UK revenues increased by 4% to £10.6m (2018 H1: £10.2m). Export revenues were £2.3m higher (+13%) at £19.3m (2018 H1: £17.0m).

There was little direct impact on revenues from the Dudson asset purchase in the first half year. We have made good progress in re-launching the acquired products and expect this to contribute to both revenue and profit more materially in the second half of 2019.

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

Operating profit before exceptional items increased by 30% to £4.2m (2018 H1: £3.3m) with Furlong Mills contributing £0.2m (5%) of this increase. On a like-for-like basis operating profit increased by 25%, with margins increasing to 13.6% (2018 H1: 11.9%). Operating profit benefited from increased revenues and the continued move towards added value products. We have further invested in the extension of our export market distribution, in product development and in improved customer service.

Earnings before interest, tax, depreciation and amortisation increased by 29% to £5.4m (2018 H1: £4.2m).

Profit before exceptional items and income tax rose by 27% to £4.2m (2018 H1: £3.3m), largely as a result of our strong operating performance. The acquisition of a controlling interest in Furlong Mills contributed a net £0.1m. This strong performance continues our long term track record of profit growth. In the five years to the end of 2018 we increased profit before income tax at a compound rate of 22% per annum.

Adjusted earnings per share improved by 24% to 30.4p (2018 H1: 24.4p).

During the first half we purchased an additional 9.5% of the equity of Furlong Mills Limited at a cost of £0.5m, taking our holding from 46.1% to 55.6%, a controlling interest. 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 as an exceptional item.

Reported profit before tax rose to £4.3m from £3.3m in H1 2018.

Basic earnings per share, including the above exceptional items, improved by 28% to 31.3p (2018 H1: 24.4p).

We have continued to generate good operating cash flows. Operating cash generation was £2.4m (2018 H1: £1.7m). Working capital requirements in the first half year were higher than last year at £2.4m (2018 H1: £1.9m) largely 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 has risen to support the increased level of activity within our business. In addition to the £2.1m spent on the purchase from Dudson, we have invested a further £1.5m (2018 H1: £0.9m) on a number of new projects including additional manufacturing space and kiln capacity which we expect to complete in 2020.

We retain a strong balance sheet with net assets of £41.4m, including net cash and deposits of £13.1m (H1 2018: £13.7m).

## Dividend

The Board is pleased to announce an 18% increase in the interim dividend to 10.3p per share (2018 H1: 8.7p) maintaining our record of improvement in cash returns to shareholders. We are pleased that the further growth in profitability and cash generation allows us to raise the dividend. The interim dividend will be paid on 4 October 2019 to shareholders on the register on 13 September 2019, with the ex-dividend date being 12 September 2019.

## Business

### Ceramics

Within our Ceramics business, we have continued to make good progress, with all this growth coming from Hospitality markets.

Export revenues increased by 13% and now represent 65% of Ceramics revenues (2018 H1: 63%). Our progress in overseas markets has been maintained, with the highest short term growth again being achieved in Europe where we have strong momentum and increasing market penetration in key markets. We have continued to increase our sales in North America and the Rest of the World which are at an earlier stage of development. This export growth has been achieved as a result of many years of investment in new product development and building appropriate distribution channels.

We are pleased that, after a period of consolidation, we have returned to growth in the UK following implementation of a number of actions to improve our focus in this market. We benefit from wide distribution across a range of sectors and continue to enjoy a consistent level of replacement sales. Revenue from added value sales has increased.

Following the acquisition of product and brand intellectual property from Dudson in April 2019 we have re-engineered and replicated the products and the first phase of re-launches took place in June 2019. Further products will reach

the market later this year. Total sales under the Dudson brand in the first half were £0.1m and are expected to increase substantially in the second half of 2019. The acquisition of this long established brand has given us a significant opportunity to establish new and separate distribution in a number of export markets. We have made good initial progress in securing this distribution in our target markets.

We continue to enjoy success in the movement of standard to higher margin added value product. Sales of added value products now represent over 47% of our Hospitality sales. This increase reflects continued innovation, product and market research and new product development. 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 continues to be of great value to the business.

#### Materials

The acquisition of a majority holding in Furlong Mills in February 2019 has had the short term effect of securing an important part of our supply chain. Furlong 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 and its leading position in applied material science will support this.

Furlong Mills has traded in line with our expectations in the first half year, total revenues were £3.1m, of which £1.1m was sold to Churchill.

#### Operations

The first half of 2019 has seen substantial progress within our manufacturing and logistics operations both on a day-to-day basis and at a strategic level.

Activity levels within our operations have been high during the first half of the year, with consequent demands on both production and logistics. At the same time we have continued to develop and introduce new product at a significant rate. These have required an acceleration of our capital investment programme, notably the extension of our first stage kiln firing capacity and a further manufacturing extension, both to support the production of higher value products. We expect these projects to progress quickly in the second half of the year and to complete in 2020.

In addition to the operational challenge posed by organic growth, the Dudson purchase has created demands in relation to the introduction of new manufacturing technology and processes. This project is progressing well and we are pleased with the quality and efficiency improvements achieved to date.

We have accelerated our investment in logistics to support our European customer base and to mitigate the potential impact of Brexit on our delivery security. Our growth in Europe was expected to create the need for a

local despatch operation in two to three years' time, but the need to maintain our service promise given potential disruption has again accelerated our investment. In February 2019 we began to supply orders to Europe from inventory established in a third party run warehouse in Rotterdam. We now hold over £0.5m of inventory in Europe and plan to increase this in the second half of 2019.

#### Brexit

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

Our detailed Brexit risk planning was completed earlier this year, but continues to be reviewed as the political and economic environment changes. We believe we have identified and developed sensible plans to mitigate the effect of disruption on our business where possible. Our plans are founded on our core principles which are the provision of value to our customers and maintenance of a high level of service.

#### People

I have previously commented on the investment we have made in our workforce in terms of training and development and the alignment and engagement of our employees with our business plans. Our continuous improvement programme remains the main focus of our efforts, but is supported by many other initiatives.

It is unlikely that the progress we have made in the first half of this year would have been possible without the past work carried out in relation to training and development and certainly not without the support and engagement of our staff. We have placed significant demands on our employees over the recent past and they have risen admirably to the challenge. Once again I thank them for their effort and commitment.

#### Outlook

We have reported a strong performance in the first half year and once again this has been achieved as a result of long term investment in line with our strategic targets. We have continued to benefit from growth in export revenues and have increased our margins as a result of the sale of further added value products. Our market position remains strong and we believe we have further opportunity, both organically and from our recent acquisitions, to continue to make further progress.

Churchill has been substantially re-positioned as a business over the past five years. We have emphasised the development of differentiated high margin products in Hospitality and exited from markets where we did not have a competitive advantage. We believe we offer a technical performance product to attractive markets worldwide with a high level of service. We have a well invested business supported by a strong balance sheet.

Current trading remains in line with our expectations and we believe that we can, subject to external conditions, make further progress. We remain focused on the long term and on the delivery of value and return on a sustainable basis.

#### Alan McWalter

Chairman  
29 August 2019

# Consolidated income statement

for the six months ended 30 June 2019

	Note	Unaudited Six months to 30 June 2019 £000	Unaudited Six months to 30 June 2018 £000	Audited Twelve months to 31 December 2018 £000
<b>Revenue</b>	1	<b>31,934</b>	27,247	57,479
<b>Operating profit before exceptional item</b>	1	<b>4,237</b>	3,254	9,237
Exceptional item	2	117	–	(541)
<b>Operating profit</b>	1	<b>4,354</b>	3,254	8,696
Share of results of associate company		(22)	92	185
Finance income	3	69	46	110
Finance costs	3	(100)	(90)	(144)
<b>Profit before exceptional item and income tax</b>		<b>4,184</b>	3,302	9,388
Exceptional item	2	117	–	(541)
<b>Profit before income tax</b>		<b>4,301</b>	3,302	8,847
Income tax expense	4	(815)	(626)	(1,649)
<b>Profit for the period</b>		<b>3,486</b>	2,676	7,198
Profit for the period is attributable to:				
Owners of the Company		3,425	2,676	7,198
Non-controlling interests		61	–	–
		<b>3,486</b>	2,676	7,198
		<b>Pence per share</b>	Pence per share	Pence per share
Adjusted basic earnings per ordinary share	5	<b>30.4</b>	24.4	69.6
Diluted adjusted earnings per ordinary share	5	<b>30.1</b>	24.2	69.0
Basic earnings per ordinary share	5	<b>31.3</b>	24.4	65.6
Diluted earnings per ordinary share	5	<b>31.0</b>	24.2	65.0

# Consolidated statement of comprehensive income

for the six months ended 30 June 2019

	Unaudited Six months to 30 June 2019 £000	Unaudited Six months to 30 June 2018 £000	Audited Twelve months to 31 December 2018 £000
<b>Other comprehensive income/(expense)</b>			
<b>Items that will not be reclassified to profit and loss:</b>			
Actuarial loss on retirement benefit obligations	–	–	(175)
<b>Items that may be reclassified subsequently to profit and loss</b>			
Exchange differences	2	(11)	23
<b>Other comprehensive income/(expense)</b>	<b>2</b>	<b>(11)</b>	<b>(152)</b>
Profit for the period	<b>3,486</b>	2,676	7,198
<b>Total comprehensive income for the period</b>	<b>3,488</b>	2,665	7,046
Attributable to:			
Owners of the Company	<b>3,427</b>	2,665	7,046
Non-controlling interest	<b>61</b>	–	–
	<b>3,488</b>	2,665	7,046

All above figures relate to continuing operations.



# Consolidated balance sheet

as at 30 June 2019

	Unaudited 30 June 2019 £000	Unaudited 30 June 2018 £000	Audited 31 December 2018 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	18,964	14,520	14,847
Intangible assets	1,620	93	91
Investment in associate	–	1,639	1,732
Deferred income tax assets	998	1,066	1,107
	<b>21,582</b>	<b>17,318</b>	<b>17,777</b>
<b>Current assets</b>			
Inventories	11,747	9,706	9,911
Trade and other receivables	12,013	9,220	9,719
Other financial assets	6,511	4,506	3,001
Cash and cash equivalents	6,971	9,230	14,380
	<b>37,242</b>	<b>32,662</b>	<b>37,011</b>
<b>Total assets</b>	<b>58,824</b>	<b>49,980</b>	<b>54,788</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	(10,572)	(8,617)	(9,561)
Current income tax liabilities	(836)	(716)	(1,063)
<b>Total current liabilities</b>	<b>(11,408)</b>	<b>(9,333)</b>	<b>(10,624)</b>
<b>Non-current liabilities</b>			
Trade and other payables	(274)	–	–
Deferred income tax liabilities	(972)	(765)	(754)
Retirement benefit obligations	(4,809)	(5,282)	(5,443)
<b>Total non-current liabilities</b>	<b>(6,055)</b>	<b>(6,047)</b>	<b>(6,197)</b>
<b>Total liabilities</b>	<b>(17,463)</b>	<b>(15,380)</b>	<b>(16,821)</b>
<b>Net assets</b>	<b>41,361</b>	<b>34,600</b>	<b>37,967</b>
<b>Equity</b>			
Issued share capital	1,103	1,103	1,103
Share premium account	2,348	2,348	2,348
Treasury shares	(445)	(530)	(729)
Other reserves	1,653	1,534	1,703
Retained earnings	34,739	30,145	33,542
<b>Capital and reserves attributable to owners of the Company</b>	<b>39,398</b>	<b>34,600</b>	<b>37,967</b>
Non-controlling interest	1,963	–	–
<b>Total equity</b>	<b>41,361</b>	<b>34,600</b>	<b>37,967</b>

# Consolidated statement of changes in equity

as at 30 June 2019

	Retained earnings £000	Issued share capital £000	Share premium £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	<b>33,893</b>	–	<b>33,893</b>
Comprehensive income								
Profit for the period	2,676	–	–	–	–	<b>2,676</b>	–	<b>2,676</b>
Other comprehensive income								
Depreciation transfer – gross	5	–	–	–	(5)	–	–	–
Depreciation transfer – tax	(1)	–	–	–	1	–	–	–
Currency translation	–	–	–	–	(11)	<b>(11)</b>	–	<b>(11)</b>
Total comprehensive income	2,680	–	–	–	(15)	<b>2,665</b>	–	<b>2,665</b>
Transactions with owners								
Dividends	(1,886)	–	–	–	–	<b>(1,886)</b>	–	<b>(1,886)</b>
Proceeds of share issue	–	–	–	3	–	<b>3</b>	–	<b>3</b>
Share based payment	137	–	–	–	(16)	<b>121</b>	–	<b>121</b>
Deferred tax – share based payment	(8)	–	–	–	–	<b>(8)</b>	–	<b>(8)</b>
Treasury shares	(234)	–	–	46	–	<b>(188)</b>	–	<b>(188)</b>
Total transactions with owners	(1,991)	–	–	49	(16)	<b>(1,958)</b>	–	<b>(1,958)</b>
<b>Balance at 30 June 2018</b>	30,145	1,103	2,348	(530)	1,534	<b>34,600</b>	–	<b>34,600</b>
Comprehensive income								
Profit for the period	4,522	–	–	–	–	<b>4,522</b>	–	<b>4,522</b>
Other comprehensive income								
Depreciation transfer - gross	7	–	–	–	(7)	–	–	–
Depreciation transfer - tax	(1)	–	–	–	1	–	–	–
Re-measurements of post employment benefit obligations – net of tax	(175)	–	–	–	–	<b>(175)</b>	–	<b>(175)</b>
Currency translation	–	–	–	–	34	<b>34</b>	–	<b>34</b>
Total comprehensive income	4,353	–	–	–	28	<b>4,381</b>	–	<b>4,381</b>
Transactions with owners								
Dividends	(954)	–	–	–	–	<b>(954)</b>	–	<b>(954)</b>
Share based payment	–	–	–	–	141	<b>141</b>	–	<b>141</b>
Deferred tax – share based payment	(1)	–	–	–	–	<b>(1)</b>	–	<b>(1)</b>
Treasury shares	(1)	–	–	(199)	–	<b>(200)</b>	–	<b>(200)</b>
Total transactions with owners	(956)	–	–	(199)	141	<b>(1,014)</b>	–	<b>(1,014)</b>
<b>Balance at 31 December 2018</b>	33,542	1,103	2,348	(729)	1,703	<b>37,967</b>	–	<b>37,967</b>
Comprehensive income								
Profit for the period	3,425	–	–	–	–	<b>3,425</b>	61	<b>3,486</b>
Other comprehensive income								
Depreciation transfer – gross	5	–	–	–	(5)	–	–	–
Depreciation transfer – tax	(1)	–	–	–	1	–	–	–
Currency translation	–	–	–	–	2	<b>2</b>	–	<b>2</b>
Total comprehensive income	3,429	–	–	–	(2)	<b>3,427</b>	61	<b>3,488</b>
Transactions with owners								
Dividends	(2,224)	–	–	–	–	<b>(2,224)</b>	–	<b>(2,224)</b>
Proceeds of share issue	–	–	–	3	–	<b>3</b>	–	<b>3</b>
Share based payment	200	–	–	–	(48)	<b>152</b>	–	<b>152</b>
Deferred tax – share based payment	73	–	–	–	–	<b>73</b>	–	<b>73</b>
Treasury shares	(281)	–	–	281	–	–	–	–
Non-controlling interest on acquisition	–	–	–	–	–	–	1,902	<b>1,902</b>
Total transactions with owners	(2,232)	–	–	284	(48)	<b>(1,996)</b>	1,902	<b>(94)</b>
<b>Balance at 30 June 2019</b>	<b>34,739</b>	<b>1,103</b>	<b>2,348</b>	<b>(445)</b>	<b>1,653</b>	<b>39,398</b>	<b>1,963</b>	<b>41,361</b>



# Consolidated cash flow statement

for the six months ended 30 June 2019

	Unaudited Six months to 30 June 2019 £000	Unaudited Six months to 30 June 2018 £000	Audited Twelve months to 31 December 2018 £000
<b>Cash flows from operating activities</b>			
Cash generated from operations (note 6)	2,434	1,686	8,260
Interest received	69	46	110
Interest paid	(19)	–	(1)
Income tax paid	(922)	(628)	(1,321)
<b>Net cash generated from operating activities</b>	<b>1,562</b>	<b>1,104</b>	<b>7,048</b>
<b>Investing activities</b>			
Purchases of property, plant and equipment	(2,010)	(867)	(2,042)
Proceeds on disposal of property, plant and equipment	49	47	80
Purchases of intangible assets	(1,619)	(53)	(58)
Payments for acquisition of subsidiary, net of cash acquired	370	–	–
<b>Net cash used in investing activities</b>	<b>(3,210)</b>	<b>(873)</b>	<b>(2,020)</b>
<b>Financing activities</b>			
Issue of ordinary shares	3	3	3
Purchase of treasury shares	–	(188)	(388)
New finance leases	21	–	–
Principal element of finance lease payments	(52)	–	–
Dividends paid	(2,224)	(1,886)	(2,840)
Net purchase of other financial assets	(3,509)	(1,506)	(1)
<b>Net cash used in financing activities</b>	<b>(5,761)</b>	<b>(3,577)</b>	<b>(3,226)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(7,409)</b>	<b>(3,346)</b>	<b>1,802</b>
Cash and cash equivalents at the beginning of the period	14,380	12,577	12,577
Exchange loss on cash and cash equivalents	–	(1)	1
<b>Cash and cash equivalents at the end of the period</b>	<b>6,971</b>	<b>9,230</b>	<b>14,380</b>

# Notes to the financial statements

for the six months ended 30 June 2019

## 1. Segmental analysis

for the six months ended 30 June 2019

	Unaudited Six months to 30 June 2019 £000	Unaudited Six months to 30 June 2018 £000	Audited Twelve months to 31 December 2018 £000
<b>Revenue by class of business</b>			
Ceramics	29,927	27,247	57,479
Materials	3,090	–	–
Inter segment	(1,083)	–	–
	<b>31,934</b>	<b>27,247</b>	<b>57,479</b>
<b>Revenue by destination</b>			
United Kingdom	12,587	10,173	23,008
Rest of Europe	13,109	10,958	21,306
USA	2,934	2,704	6,054
Rest of the World	3,304	3,412	7,111
	<b>31,934</b>	<b>27,247</b>	<b>57,479</b>
	Unaudited Six months to 30 June 2019 £000	Unaudited Six months to 30 June 2018 £000	Audited Twelve months to 31 December 2018 £000
<b>Operating profit before exceptional items</b>			
Ceramics	4,067	3,254	9,237
Materials	170	–	–
	<b>4,237</b>	<b>3,254</b>	<b>9,237</b>
<b>Exceptional items</b>			
Ceramics	–	–	(541)
Materials	117	–	–
	<b>117</b>	<b>–</b>	<b>541</b>
<b>Operating profit after exceptional items</b>			
Ceramics	4,067	3,254	8,696
Materials	287	–	–
	<b>4,354</b>	<b>3,254</b>	<b>8,696</b>
<b>Unallocated items</b>			
Share of results of associate company	(22)	92	185
Finance income	69	46	110
Finance costs	(100)	(90)	(144)
<b>Profit before income tax</b>	<b>4,301</b>	<b>3,302</b>	<b>8,847</b>

# Notes to the financial statements

for the six months ended 30 June 2019

## 2. Exceptional items

2019: In accordance with IFRS, the negative goodwill of £117,000 generated on the acquisition of a controlling interest in Furlong Mills Limited has been credited to the Income Statement as an exceptional item. A related deferred tax charge of £20,000 has been provided for.

2018: Following changes to the law relating to the equalisation of Guaranteed Minimum Pensions, a one-off sum of £611,000 was provided to reflect the cumulative effect of these changes. A related deferred tax credit of £104,000 was also provided for. Additionally provisions for costs of £70,000 in relation to the disposal of property were released and credited to profit.

## 3. Finance income and costs

	Unaudited Six months to 30 June 2019 £000	Unaudited Six months to 30 June 2018 £000	Audited Twelve months to 31 December 2018 £000
<b>Finance income</b>			
Other interest receivable	69	46	110
Finance income	69	46	110
<b>Finance costs</b>			
Interest paid	(19)	–	(1)
Interest on pension scheme	(81)	(90)	(143)
Finance costs	(100)	(90)	(144)

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

## 4. Income tax expense

	Unaudited Six months to 30 June 2019 £000	Unaudited Six months to 30 June 2018 £000	Audited Twelve months to 31 December 2018 £000
Current taxation	621	513	1,552
Deferred taxation	194	113	97
Income tax expense	815	626	1,649

## 5. Earnings per ordinary share

Basic earnings per ordinary share is based on the profit after taxation attributable to owners of the Company of £3,425,000 (June 2018: £2,676,000; December 2018: £7,198,000) and on 10,961,584 (June 2018: 10,964,570; December 2018: 10,966,966) ordinary shares, being the weighted average number of ordinary shares in issue during the period. Adjusted earnings per ordinary share is calculated after adjusting for the post tax effect of the exceptional items (see note 2).

Diluted basic earnings per ordinary share is based on the profit after taxation attributable to owners of the Company of £3,425,000 (June 2018: £2,676,000; December 2018: £7,198,000) and on 11,064,534 (June 2018: 11,066,621; December 2018: 11,069,061) ordinary shares, being the weighted average number of ordinary shares in issue during the period of 10,961,584 (June 2018: 10,964,570; December 2018: 10,966,966) increased by 102,950 (June 2018: 102,051; December 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 price during the period. Diluted adjusted earnings per ordinary share is calculated after adjusting for the post tax effect of the exceptional items (see note 2).

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

	Unaudited Six months to 30 June 2019 £000	Unaudited Six months to 30 June 2018 £000	Audited Twelve months to 31 December 2018 £000
<b>Cash flow from operations</b>			
Operating profit	4,354	3,254	8,696
Adjustments for			
Depreciation and amortisation – before exceptional item	1,187	913	1,725
Amortisation – exceptional item	(117)	–	–
Profit on disposal of property, plant and equipment	(22)	(4)	(91)
Charge for share based payment	152	121	262
Decrease in retirement benefit obligations	(715)	(715)	(1,430)
Pension current serve charge – non cash exceptional	–	–	611
Changes in working capital			
Inventory	(1,006)	110	(95)
Trade and other receivables	(402)	(585)	(1,039)
Trade and other payables	(997)	(1,408)	(379)
<b>Cash inflow from operations</b>	<b>2,434</b>	<b>1,686</b>	<b>8,260</b>

## 7. Acquisition of subsidiary

On 25 February 2019 Churchill acquired a further 9.5% of the issued ordinary share capital of Furlong Mills Limited 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, a controlling interest, it has been accounted for as a subsidiary from that date.

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

	£000
Plant, property and equipment	3,176
Inventory	830
Debtors	1,891
Cash and cash equivalents	824
Trade and other payables	(2,258)
Current income tax liabilities	(75)
Deferred income tax liabilities	(205)
Total identifiable assets	4,183
Goodwill	(117)
Non-controlling interest at acquisition	(1,902)
Total consideration	2,164
Satisfied by:	
Cash and cash equivalents	454
Investment in associate at acquisition	1,710
	2,164
Net cash inflow arising on acquisition	
Cash consideration	(454)
Less: Cash and cash equivalents acquired	824
Net cash inflow	370

# Notes to the financial statements

for the six months ended 30 June 2019

## 8. Basis of preparation and accounting policies

The interim financial information for the period to 30 June 2019 has not been audited or reviewed and does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The Company's statutory accounts for the year ended 31 December 2018, prepared in accordance with accounting standards adopted for use in the European Union (International Financial Reporting Standards - IFRS), have been delivered to the Registrar of Companies; the report of the Auditors on these accounts was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The interim financial statements have been prepared in accordance with IFRS as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS, under the historical cost convention as modified by the revaluation of land and buildings, available for sale financial assets, and financial assets and liabilities (including derivative instruments) at fair value through the profit and loss account. The same accounting policies, presentation and methods of computation are followed in the interim financial statements as were applied in the Group's last audited financial statements, except in relation to the adoption of IFRS 16 'Leases', effective from 1 January 2019.

The asset and corresponding liability on implementation on 1 January 2019 amounted to £234,000. In the six months to 30 June 2019, IFRS 16 resulted in a £6,000 increase to operating profit and an £11,000 increase in interest payable.

## 9. Share buybacks

The Company did not buy back any ordinary shares during the first six months of the year, but may consider making further ad hoc share buybacks going forward at the discretion of the Board and subject to the shareholder authorities approved at the 2019 Annual General Meeting.

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