



CHURCHiLL



ANNUAL REPORT 2022



CHURCHILL

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

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

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





Company Profile

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

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

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

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

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

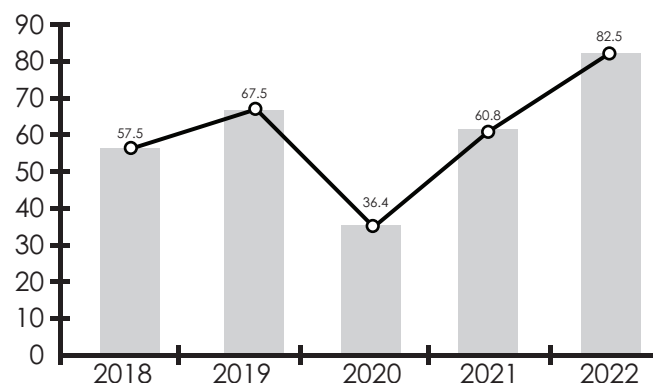
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Five Year Performance

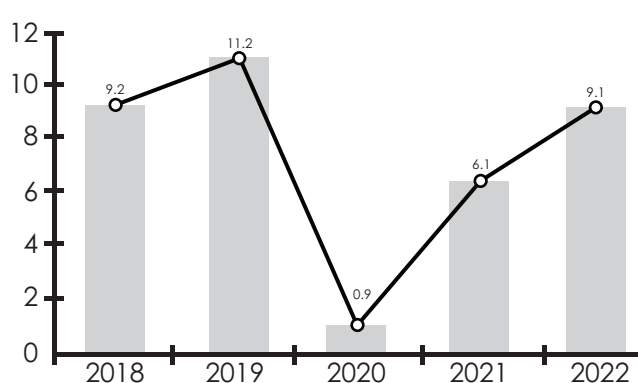
Revenue (£m)

£82.5m ↑ £21.7m



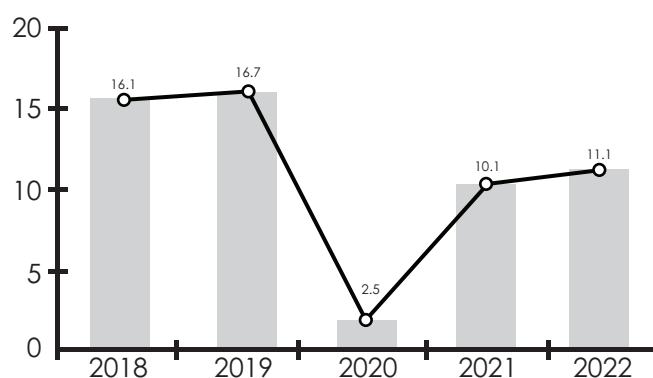
*Operating Profit (£m)

£9.1m ↑ £3.0m



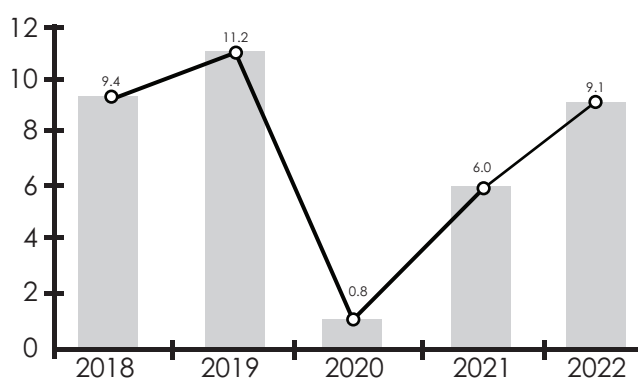
*Operating Margin (%)

11.1% ↑ 1.0%



*Profit before Income Tax (£m)

£9.1m ↑ £3.1m



* Excluding exceptional items.

Other Highlights

- Adjusted basic EPS* increased to 66.9p (2021: 37.8p)
- Cash generated from operations £4.9m (2021: £10.6m) – substantial investment in inventory to optimise service levels and efficiency
- Total cash and financial assets of £14.7m (2021: £19.0m)

“We are pleased to report a strong performance in the year and have more than achieved our initial targets.”



Financial Highlights

for the year ended 31 December 2022

	2022 £'000	2021 £'000
Revenue	82,528	60,839
Operating profit before exceptional items	9,142	6,122
Exceptional items	547	–
Operating profit	9,689	6,122
Net finance cost	(88)	(159)
Profit before exceptional items and income tax	9,054	5,963
Exceptional items	547	–
Profit before income tax	9,601	5,963
Dividends paid	3,062	739
Key ratios		
Operating margin before exceptional items	11.1%	10.1%
Earnings before interest, tax, depreciation, amortisation and exceptional items (£'000)	12,125	8,960
Earnings before interest, tax, depreciation and amortisation (£'000)	12,672	8,960
Adjusted basic earnings per share*	66.9p	37.8p
Basic earnings per share	71.7p	37.8p
Interim dividend per share paid	10.5p	6.7p
Final dividend per share proposed	21.0p	17.3p

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

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



Directors, Secretary and Advisers

Executive Directors

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

Non-Executive Directors

A J McWalter (Chairman) +
B M Hynes * •+
J M Moore * •+
R G W Williams * •+
C J Stephens * •+

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 Peter's Square
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

“Churchill is a resilient, adaptable business that benefits from a clear focus on delivering outstanding performance products, value and service to its customers and prospers as a result. We have a clear strategy and a long term approach to business which underpins our confidence in our future prospects.”

Introduction

We are pleased to report a strong performance in the year and have more than achieved our initial targets despite considerable external impact on both our markets and input costs. This performance, with a 36% increase in revenue and an increase in profit before exceptional items and tax of over 50%, reflects the strength of our market position and product offering, our geographic reach and diversity, and the resilience of our business model. Alongside these achievements, we have continued to develop and implement our longer term strategy, building our presence in Hospitality export markets and investing in the future of our business.

We continue to make good progress in growing our revenue and, as previously reported, are addressing some of the production issues that have adversely impacted margins as we increased manufacturing output during the year. Demand levels remain satisfactory overall, and we have substantially improved our customer service performance as inventory has increased, reducing the outstanding order book towards more normal levels.





Chairman's Statement

Financial Review

Total revenues rose by 36% to £82.5m (2021: £60.8m). Revenues increased both as a result of market share gain, resulting in increased volumes, and higher price levels implemented to help mitigate the effect of input cost inflation during the period.

Revenue (£m)	2022	2021	Change
Ceramics	75.3	55.6	35.5%
Materials	7.2	5.2	37.4%
Total	82.5	60.8	35.6%
UK	33.2	24.4	36.1%
Export	49.3	36.4	35.3%
Total	82.5	60.8	35.6%

As expected, overall gross margins remained lower than their long-term average with output and efficiency levels during the year affected by labour availability issues, lower than optimal levels of experience within our workforce and higher input prices for materials and energy. Margin levels showed their normal increase in the second half of the year and we have seen some improvement in efficiency in the first months of 2023 as we have both reduced the amount of short term contract labour and improved overall manufacturing yields. We expect to make further progress in the resolution of these issues over the medium term.

Operating profit before exceptional items rose by £3.1m to £9.2m (2021: £6.1m). Overhead cost levels increased, principally, as a result of further long-term investment in sales and marketing, supporting forward business development. Operating profit margins before exceptional items rose by 1.0% to 11.1% (2021: 10.1%).

Profit before exceptional items and income tax was £9.1m (2021: £6.0m) with the increase reflecting improved operating profit.

Net exceptional income: We have received two amounts of exceptional income during the year, firstly in relation to a receipt in relation to the voluntary winding up of a ceramic industry trade body, of which the Company was a member*, and a further amount as a reduction to our rates charge covering the initial impact of COVID-19 in 2020. The latter sum was used to fund a one-off payment made to all our employees as cost-of-living support. These amounts have been treated as exceptional, given their size and nature.

Adjusted basic earnings per share before exceptional income was 66.9p (2021: 37.8p).

Reported profit after exceptional items, but before income tax, was £9.6m (2021: £6.0m).

Basic earnings per share, after exceptional items, was 71.7p (2021: 37.8p).

Cash flows from operating activities of £4.9m (2021: £10.6m) were lower than normally delivered, reflecting a substantial increase in overall inventory levels of £5.4m to £15.9m. Stock levels within the Ceramic business had been well below desirable levels for most of 2022, adversely affecting customer service. These have been partially rebuilt during the final quarter of the year giving increased security to customers through improved delivery and better production efficiencies. Inventory levels within our Materials business also increased substantially as we established higher safety stocks of raw materials. Levels of receivables also increased as revenue grew, although the cash effect of this rise was offset by higher levels of creditors. Capital expenditure increased to £4.7m (2021: £3.7m), further details of which are set out below. After total dividend payments of £3.1m (2021: £0.7m), cash and deposits at 31 December 2022 were £14.7m (2021: £19.0m).

The funding position of our defined benefit pension scheme has improved substantially over the year, as a result of an increase in discount rates applied to scheme liabilities following higher general interest rates. The scheme's investment strategy has been adjusted to reflect revised market conditions. The overall surplus at the year end was £6.9m (2021: deficit £7.2m). The Company is reviewing its forward position in relation to future scheme funding.

Dividend

We are pleased to propose a final dividend of 21.0p per share, giving a total dividend of 31.5p per share for the year, a 31% increase on the 24.0p paid in relation to 2021. This dividend will be payable on 23 June 2023 to shareholders on the register on 19 May 2023. The dividend is in line with our policy of growing returns to shareholders and reflects our ongoing confidence in the progress of the business.

Business

The business has performed well against its objectives for 2022. This has been possible through a continued focus on our core business principles of providing excellent value, outstanding products and a high level of service to our customers.

Ceramics

Hospitality sales in the year to 31 December 2022 increased by 40% against 2021. This increase reflected higher price levels, but importantly also higher sales volumes, which rose by 23% against the prior year.

Export development continues to be our main long-term focus for revenue growth and we have made good progress in all of our overseas regions. The best performance was again from Europe, where revenues rose by £7.7m to £31.5m. Progress continued to be made in the USA (+49%) and Rest of the World markets (+64%). UK sales, which had recovered more slowly from COVID-19, grew more strongly as larger hospitality customers recovered. Sales in the UK were more than 40% ahead of 2021.

The early part of the year saw significant energy and material price rises alongside the existing issue of reduced labour availability. More recently, we have seen some impact from uncertainty arising from the impact of higher costs of living in certain markets. We were able to, partially, mitigate the impact of higher costs with fair and balanced price rises reflecting the continued value of our product and service offering to our customer base. Whilst we increased prices twice last year, we believe that more stability in input pricing will allow a more measured approach in 2023. The business is currently benefiting from the geographic diversity of our market spread with continued strong growth in export markets offsetting the effect of consumer uncertainty in the UK. We believe that we have now begun to resolve a number of the efficiency issues that have constrained our performance in recent periods.

Added Value sales increased by over £10m during the year and were 34% ahead of 2021, despite a lower level of new product introductions. Good progress was made in all our major market sectors, and Europe continues to be the market reporting the highest level of added value product sales, supporting our continued focus on that region. We expect to increase the level of new product launches in 2023.

In line with our strategy to prioritise the manufacture of Hospitality products, Retail sales were lower, down 33%. Retail sales now represent less than 5% of our Ceramics revenues.

Materials

Furlong Mills has performed extremely well during the year, despite a number of challenges. Material and energy cost rises were particularly evident in this business, but again these have been largely reflected in higher price levels. The business' performance improved following a substantial increase in demand from Churchill and a general increase in business from the UK ceramic tableware industry. Overall revenues rose by 54%, with the increase from external customers being almost £2m (37%). The operational team worked exceptionally hard to meet increased output requirements and to continue to offer a leading service to their customers. As previously noted, we have taken the decision to substantially increase holdings of raw materials to improve supply-chain security to both Churchill and our external customer base, and inventory levels are £2.1m higher than the end of 2021. While this has required substantial investment by the business, we believe it is the right decision to support both Churchill and Furlong's external customers.

Furlong Mills is also contributing significantly to the Group's long-term plan to reduce energy usage. We believe that substantial gains are available from improved materials and processes, and the capability and knowledge within the Furlong business will support the realisation of these benefits.

Operations

As previously noted, 2022 has been a testing year for our manufacturing operations and we are pleased that they have responded well to the challenges presented to them. The success of our plan to secure additional sales volumes was initially supported by higher inventory levels, but as this was depleted, the requirement to expand production levels increased. Output levels rose by over 30% in the year, a substantial achievement, central to our objective of providing the best possible service to our customers. Labour availability and experience remained an issue through the year leading to a number of inefficiencies and higher-than-desirable unit costs.

Production levels have now stabilised and we have begun to see some of the benefits of a number of projects and actions aimed at improving productivity and efficiency. The numbers of temporary staff within the business is reducing steadily and the skills and capability of our core workforce is improving, progressively, as experience levels increase and our training programme delivers returns. As inventory levels have grown, we have been able to plan longer production runs while also improving customer service. Finally a number of the capital projects targeting improved productivity that were initiated last year are now beginning to become operational. The effect of these will not be significant in the short term, but will provide a longer term route to increased efficiency.

Capital expenditure rose to £4.7m (2021: £3.7m) overall as we continued to invest in equipment to support the development of Added Value revenues, and in projects improving our productivity and energy efficiency.

Our energy hedging position continues to reduce volatility within energy pricing. Whilst we will see some benefit from currently lower prices earlier in 2023, the principal benefit from this will be secured in the second half of the year. We also have a smaller hedged position into the first months of 2024. We are mindful of the extended impact of volatile energy pricing and will continue to monitor market movements carefully.

Environmental, Social and Governance ('ESG')

Our approach to ESG has moved forward substantially over the year. The senior management focus, outlined in last year's report, has allowed the development of our broad strategy and the identification of short, medium and long term actions supporting our forward progress. As a major energy user and large employer, much of our work has focused on the Environment and Social pillars, but we have made progress in all areas of our focus.

In relation to our energy footprint, we have initiated a number of projects which have given us a much clearer idea of how we may move towards Net Zero over the longer term. These initiatives should deliver benefits that will deliver steady progress towards our sustainability objectives. Our approach is based on a combination of improved energy efficiency in the manufacture of our product and increased sustainable generation. Importantly, we believe that significant improvements can be made through the reformulation of the materials we use, and changes in our production processes, to allow manufacture using, substantially, less energy input. We are working on a number of research and development projects in this area utilising our own technical staff, external experts and suppliers.

We have also implemented a number of initiatives in relation to our workforce and our engagement with our local community. We have always prioritised the training and development of our workforce and we have continued to invest in this area. Future plans emphasise the improvement of our employees' working environment.

We believe that our Governance procedures remain appropriate for a business of our scale and structure, but, in common with other areas of our business, they must follow a process of continuous improvement. A substantial amount of work has been carried out in relation to the development and implementation of a succession plan for the Board and senior management; a summary of this is set out below.



Chairman's Statement

People

Before addressing changes to our Board, I would first like to thank our workforce, as a whole, for their contribution to this year's performance and the long-term health and vitality of our business. As has been referred to above, we have successfully addressed a number of difficult challenges during 2022, and continue to deal with changing economic, trading and operational conditions. We have faced these issues, not just with a well-positioned and well-invested business, but, most importantly, with a talented and committed workforce that delivers a consistent and high level of performance. The Board, once again, offers its thanks to all our employees and we are extremely proud of their achievements.

In relation to the composition of our Board, we have made significant progress over the course of the year in planning its future development. The longer-term evolution of our Board had been given less priority in recent years, as the business faced a number of challenges from external events, and it was felt that the maintenance of an experienced senior team was in the best interests of shareholders.

However, we have implemented a number of changes in both executive and non executive roles, aimed at refreshing our Board and increasing the level of independent oversight. As we have previously announced, David Taylor, who has been our Chief Financial Officer for over 31 years, will leave the Board this month. As we announced on 20 December 2022, he will be succeeded by Michael Cunningham, who will join from Surface Transforms plc on 1 June this year. We have appointed two new independent non executive Directors, Robin Williams in October 2022 and Caroline Stephens in February this year, who, together with Mark Moore, bring our complement of independent Directors to three. I also wish to announce that I, Alan McWalter, will retire as Chairman and a Director with effect from the conclusion of the 2023 Annual General Meeting. Robin Williams will assume the role of Chair from that date. The Board will remain focused on the implementation of these transitional changes.

Outlook

We delivered a strong performance in 2022, growing both revenue and profitability, despite a number of challenges. This performance reflects not just the attractiveness of our markets but the strength of our established position and the long term approach that we will continue to follow. Churchill is a resilient, adaptable business that benefits from a clear focus on delivering outstanding performance products and value and service to its customers, and it prospers as a result. We have a clear strategy and a long term approach to business which underpins our confidence in our future prospects.

We believe that, despite some uncertainty in selected markets, that we are well positioned to continue to grow our revenues in line with our established strategy. We have invested in our European operations and continue to see good opportunities for progress in that region alongside other export markets.

The output and efficiency issues affecting our manufacturing operations in 2022 are being addressed, and we expect to demonstrate an improved performance in this area as we move through the year. 2023 has started well, with a satisfactory level of activity across our markets, and we have met our targets in the first three months of the year. We expect to continue to maintain our investment programme in support of our longer term aspirations.

We look forward to delivering an improved performance in 2023.

Alan McWalter

Chairman
12 April 2023





“We delivered a strong performance in 2022, growing both revenue and profitability despite a number of challenges.”

Strategic Report

The Directors present their Strategic Report for the Group for the year ended 31 December 2022.

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 established by our employees. While the Board has set 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 programmes have been an important part of this process. We believe we have an open and sharing culture, with a strong level of engagement with our stakeholders.

Principal activities and business environment

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

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

Hospitality markets across the world have recovered well during 2022 although there has been some effect from higher levels of inflation and higher costs of living for consumers. Our market position has continued to develop. We have made good progress in the second half of the year, although against harder comparatives than the first half. Levels of competition in our markets have normalised following the interruption from the pandemic, although we expect to have strengthened our overall share of our target markets over the medium term.

Sales of Hospitality product have increased by 40% across 2022, the largest part of this reflects increased volumes. Our strong market position has allowed us to recover a high proportion of increases in the cost of materials and energy although our margins remain below those achieved historically given lower labour efficiency. Alongside many other businesses our operational efficiency has been impacted by tighter labour markets.

Our Materials business, Furlong Mills, which produces ceramic bodies from raw materials, has performed well in the year, benefiting from increased volumes as the UK ceramics industry recovered towards pre COVID-19 levels.

We have managed the increases in our sales pricing carefully, balancing the need to pass on increased input costs with our long term relationships with our customers. Following the November 2021 rise, we increased prices again in May 2022 to pass on higher costs. We have reverted to our normal 1 January annual price rise in 2023.

We have responded to the above changes in our operating environment and have invested more resource in recruitment, training and new machinery to address the issues raised by skilled labour shortages. We expect benefits to accrue from these investments in the future alongside those flowing from our regular investment programme.

We have continued our programme of product innovation and have maintained our long term investments in market development and manufacturing operations. The scale and direction of our investment programme has changed to reflect market changes and the increasing importance of efficiency, but we continue to operate for the long term.

Promoting the success of the Company

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

Further information on these areas may be found in the Environmental, Social and Governance section on page 16 later in the Annual Report.

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

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

We aim to deliver well designed, performance products and outstanding service at appropriate 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.

The business has regular contact with our workforce through both formal and informal mechanisms. The scale of our business and our open culture allows the Board and management to engage with our employees on a day-to-day basis, and employees are encouraged to raise issues. We have a recognised trade union representing the majority of our weekly paid employees and we meet regularly with their representatives. However, we believe that other initiatives including on-site briefings, communication boards and regular news updates provide the most important means of engaging with our workforce. We believe that our workforce is engaged and motivated.



“We are well positioned to continue to grow our revenues in line with our established strategy.”

Strategic 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 35 days (2021: 37 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 resolutions at the 2022 Annual General Meeting was largely positive, with over 96% 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 employees and customers, our technical and business skills, our long heritage of manufacturing, and willingness to embrace new methods to deliver an outstanding service.

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

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

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

Our employees also give us significant advantage. We believe we recruit, retain and develop high quality individuals at all levels within the business, who contribute towards the success and growth of the Company and maintain our core values. We have maintained our investment in training and development to provide more fulfilling roles for our staff and improve the effectiveness and productivity of our workforce. The recruitment difficulties and impact on efficiency, experienced during 2022, demonstrates the effectiveness of our core employee base, and we have continued to implement a number of initiatives to both develop and reward our colleagues to the benefit of both themselves and the business.

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 efficient 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 lead us towards development of our position in hospitality markets worldwide.

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

products that are aesthetically appealing whilst also performing to appropriate customer and technical standards.

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 sustainable long term basis. We research customer product requirements and distribution structures in new markets and, if they offer profit opportunities, invest to generate revenue, margin and ultimately a return for the business and our stakeholders.

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

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

As a major energy user we have recognised and acknowledged the importance to our future operations of reducing our energy consumption substantially. We have commenced a long term process to develop a number of initiatives to meet forward energy targets. A number of these initiatives are underway. We are pleased with the potential impact from these actions but recognise that this is a long term process requiring continuing focus.

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.

The business has performed well during the year and has continued to recover from the impact of COVID-19. We have addressed the challenges posed by increased material and energy costs, from constraints on the availability of manpower and, later in the year, from the impact of higher costs of living on consumer demand.

Revenue levels have grown well reflecting both increased volumes and higher price levels. Gross margin levels have continued at lower than historic levels as the business has absorbed labour inefficiencies in order to grow output levels and maintain supply to our long term customers.

The business has continued to make progress against its strategic targets with further growth in Europe and other export markets. Export sales to Hospitality markets were £13.4m higher than 2021 and £11.0m higher than 2019.

Whilst our service levels to customers declined during the middle of 2022 as inventory levels fell and order books were extended, we have recently made good progress in returning to previous levels and inventory levels are now much more robust. We have substantially increased our manpower numbers, including the use of both additional permanent and temporary labour. This has placed higher demands on training and management as the business has welcomed new starters.

We have made further progress against our longer terms goals. Continued differentiation within our product range, technical innovation and further extension of our distribution network should continue to bring future benefits in relation to our overall market position. We are investing to reinforce the existing sustainability of our business.

We expect that the popularity of dining out as a leisure activity will continue and that investment by hospitality providers such as pubs, restaurants and hotels will continue to be a major driver of demand for our products. Our competitive position in Europe, where we have a relatively small but growing market share, remains the prime focus of our forward growth plans.

Our Materials business, Furlong Mills, has performed well during the year with its revenue and profitability increasing as the UK ceramics industry recovered. Raw material cost rises have largely been recovered from customers. The business has also contributed strongly to the technical development of our Hospitality product.

Overall cash and deposit balances have reduced over the year, although we continue to enjoy a strong cash position. Working capital has increased as inventories grew from the low levels at the end of 2021 and we invested in additional stocks of raw materials. We have increased our capital expenditure programme supporting our long term

business plan. This liquidity provides reassurance in the short term and facilitates medium and long term development.

The funding level of the Group's defined benefit pension scheme has improved substantially during the year as a result of an increase in discount rates applied to scheme liabilities following higher general interest rates. The Group has assessed the recoverability of the net asset arising from the scheme surplus and considers that, based on the Trust Deed and Scheme rules, the surplus would be recoverable on cessation of the scheme.

Acquisitions

The core of our strategy is based around steady growth in our target business areas. We do not normally use acquisition as a means of achieving this. However, where we have opportunities to accelerate our organic growth at an acceptable cost we will evaluate acquisition. No acquisitions were made in 2022 (2021: none).



Strategic Report

Environmental Social and Governance

Our Environment, Social and Governance (ESG) processes and work have developed substantially during the year. Our principal focus over the year has been to address the long term challenges raised by the use of energy within our business, but we have also made good progress in other areas, notably in relation to our workforce and in our governance procedures.

At a strategic level we have a clearer vision of an outline roadmap towards carbon Net Zero and identified several short, medium and long term initiatives that will support progress towards our long term goals. These initiatives are being assessed and implemented progressively.

Following the framework established in 2022 our ESG committee, comprised of Executive Directors and Senior Management, have continued to develop our approach and further embed the ESG objectives and actions into our business planning. The ESG Committee and subcommittee working parties have continued to make good progress against the areas identified.

We use a significant amount of energy in our processes and this is an area of strategic focus of the business. Substantial progress has been made in identifying efficiency, recovery and generation initiatives across our operations. We have researched proven and emerging technologies to assess how these can potentially combine to a path to Net Zero, whilst maintaining the performance characteristics of the technically differentiated and durable product that we manufacture. This process has included the initiation of a number of research projects in relation to our materials and processes, contribution to industry initiatives and use of specialist advice from suppliers and other experts.

The business employs over 800 people across two manufacturing sites who work predominantly in an industrial environment. The Board is conscious of the effect of steep rises in the costs of living for a number of our employees over the last twelve months and we have taken care to be as supportive as we can during this period, including paying additional cost of living supplements. Longer term our Human Resource procedures are undergoing a detailed review and we are investing further in resource in this area. Our Health and Safety procedures and systems have continued to manage what is an important area for the business. We have also continued to make significant progress in training and development across the business at all levels.

Our Governance procedures have been subject to ongoing review and particularly in supporting the demonstrable independence of our Non Executive Directors under the QCA Code. Whilst we do not believe there has been any significant risk to shareholders we have acted to increase the number of independent Non Executive Directors on our Board, making two appointments in October 2022 and February 2023. Further changes are planned for 2023 and are detailed in the Directors' Report. We have continued to develop and implement the Board succession planning process.

The Company continues to operate a business model which is focused on long term sustainable success, delivering returns to all stakeholders. We will continue to develop and evolve our ESG agenda and over time, will translate our goals and objectives into a published reporting framework, with benchmarks, key performance indicators and our progress against them. The following tables identify and update our goals and actions to achieve them.

Energy and Carbon Reporting

As a business we have recognised the effect of our operations on the environment and the importance of managing and reducing this impact. We understand that we use significant amounts of energy as it is central to the manufacture of our product.

However we are also clear that we make ceramic tableware that is highly durable and may be safely re-used many thousands of times.

Further details in relation to other aspects of our environmental performance may be found later in the Annual Report commencing on page 17.

We have a dedicated process aimed at reducing our use of energy. This process has several points of focus and it is an important part of both our strategic planning and operational management.

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

Tonnes of CO ₂	2022 Base	2022 REGO*	2021 Base	2021 REGO*
Scope 1 – Direct emissions	13,728	13,728	10,730	10,730
Scope 2 – Indirect emissions	3,012	632	2,787	2,285
Total	16,740	14,360	13,517	13,014
Intensity metric: Scope 1 and 2 per metric tonne of raw material input	0.55	0.48	0.57	0.55
Total UK energy consumption (MWh)	90,651	90,651	71,385	71,385

The Group's total use of energy grew by 27% as production levels increased. However as a result of the increases in volume the business has been able to operate at more energy efficient levels. In addition we have seen some benefit from the progressive implementation of the energy initiatives introduced in the year to improve efficiency and extend generation.

Total energy consumed during 2022 contains 179,000 kWh of energy generated through solar arrays at our Marlborough site, to which no CO₂ emissions are attributable. We expect this level of generation to increase substantially during 2023.

The above information reflects data from the business' UK facilities and vehicles which represent substantially all the Group's operations.

*REGO (Renewable Energy Guarantees of Origin, or green tariff) data above adjusts CO₂ figures for the effect of the move of the Group's sites to the use of electricity from renewable sources with effect from October 2021 for the Sandyford site and October 2022 for the Furlong site.

Current position

We manufacture a durable, highly re-usable product, principally in the United Kingdom, using efficient modern technologies.

We care for and invest in our workforce and operate for the long term in an ethical manner.

We operate to high standards of governance taking measured and controlled risks to achieve our business aims.

ENVIRONMENT		SOCIAL	GOVERNANCE
Materials and Water		Employees	Strategy
<ul style="list-style-type: none"> Actions to reduce overall use of materials and increase sustainable raw materials Reduce use of water 		<ul style="list-style-type: none"> Continue to provide a safe working environment Improve our employees' experience of work through training, investment and career progression 	<ul style="list-style-type: none"> Commitment to a business approach delivering long term value on an ethical basis Maintain ESG goals within our business culture
Energy		Customers and Suppliers	Risk
<ul style="list-style-type: none"> Reduce energy footprint per manufactured piece Invest in energy efficient manufacturing equipment Invest in the generation of sustainable energy Recover waste energy Reduce energy consumption through technical changes to ceramic materials and processes 		<ul style="list-style-type: none"> Continue to supply safe products To be considered professional, trustworthy and innovative Build long term relationships providing sustainable value to our business partners Maintain high levels of customer service To ensure our suppliers meet our standards 	<ul style="list-style-type: none"> To identify, manage and mitigate the risks that our business operations expose us to
Waste and Emissions		Community	Communication
<ul style="list-style-type: none"> Reduction of process losses Quality improvement Increase recyclability of major waste streams 		<ul style="list-style-type: none"> To be a good neighbour To operate ethically and to understand our place and role in society 	<ul style="list-style-type: none"> To communicate clearly with our stakeholders
			Board procedures
			<ul style="list-style-type: none"> To operate best practice in relation to Governance codes Maintain Board effectiveness Increase the diversity of the Board

2022 ACTIONS

ESG Working Party established to drive action

Initial level setting process completed

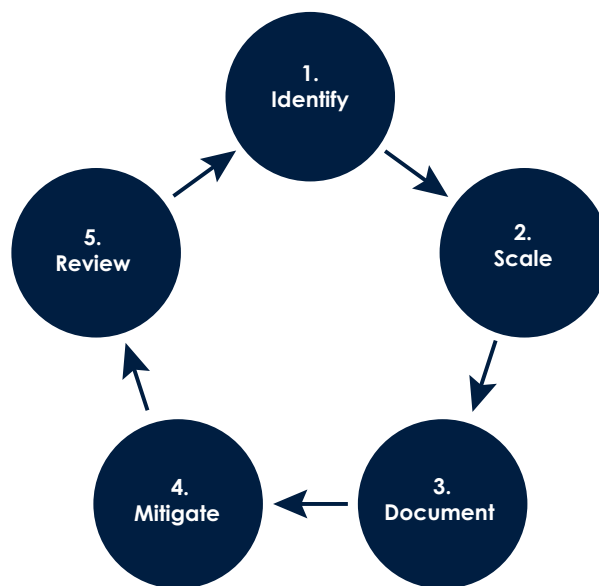
Initial materiality assessment completed

ENVIRONMENT		SOCIAL	GOVERNANCE
Materials and Water		Employees	Strategy
<ul style="list-style-type: none"> Optimisation of production routes to reduce water usage and waste Investigation and trials of alternative body materials to reduce process energy usage 		<ul style="list-style-type: none"> Cost of Living payments totalling £400 per employee over 2022/2023 Further investment in Health and Safety function and employee alignment Improved employee on-boarding Expansion of graduate and apprentice schemes Creation of a Traineeship program, primarily targeting those not in further education or training. Further increase in continuous improvement and workplace training Development of communication methods with employees 	<ul style="list-style-type: none"> Formal annual review process Regular review, development and implementation of strategic plan Operational strategy review process upgraded
Energy		Customers and Suppliers	Risk
<ul style="list-style-type: none"> Industry of Future program developing potential decarbonisation roadmap. 100% of Group electricity now purchased from renewable sources Installation of solar infrastructure and development of future capacity planning Investigation into further uses of waste heat from production processes Firing trials of tableware with multiple alternative fuel sources Membership and pledge given to the trade organisation Net Zero agenda. Investigation and use of alternative milling processes and materials. 		<ul style="list-style-type: none"> Commitment to high level of customer service maintained Sponsorship of Hospitality industry training programmes Maintenance of supplier ethical audit and support programmes using SMETA process 	<ul style="list-style-type: none"> Formal risk review process maintained Development of Business Continuity Planning process Ongoing consideration of risk through operational process
Waste and Emissions		Community	Communication
<ul style="list-style-type: none"> Audit, assessment and prioritisation of all waste streams Onsite cardboard compactor improving cardboard recycling efficiency Recycled ceramic body trials 		<ul style="list-style-type: none"> Engagement with local schools and colleges Engagement with the prison service to provide employment opportunities 	<ul style="list-style-type: none"> Regular contact with stakeholders Post COVID restart of on site tours and presentations to shareholders
			Board procedures
			<ul style="list-style-type: none"> Benchmarking of processes against best practice Board effectiveness review Development of Succession planning process Further independent Non-Executive Director recruitment

Strategic Report

Principal risks and uncertainties

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



Risk	Risk Change	Risk Description
Market and Business Environment Change	↑	<p>The Group operates in dynamic markets where there have been significant recent changes to trading and economic conditions, distribution channels within each market and product requirements in these markets. The Group actively manages its market exposure and profitability, but risks losing revenue if we do not anticipate 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>
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>
Manufacturing and Supply Chain	↑	<p>Over 85% of our revenues are of products manufactured in our UK facilities. Whilst this provides a high quality and effective source of products it exposes us to risk in the case of the potential loss of availability of part or all of our facilities for an extended period. Additionally we may be exposed to risk through the loss of a key supplier or material. This risk is controlled through our risk review process, management procedures, appropriate investment and ultimately insurance arrangements.</p> <p>We have augmented our UK production facilities with a range of third party suppliers. The use of these suppliers exposes us to risks in relation to interruption to supply and changes in cost structures arising from economic or regulatory change. We manage this risk by diversifying our sources.</p> <p>As a major user of energy within our production process we have an exposure to changes in availability and price of gas and electricity. Energy price hedging strategies may expose us to counterparty risk. Progressive legislation in relation to energy usage and carbon footprint reduction may also affect our operations.</p> <p>We have developed a forward energy strategy to reduce our overall carbon intensity in the medium term. We seek to control and mitigate this risk through management of our overall energy consumption, small scale investment in sustainable energy generation and energy recovery systems.</p> <p>We also assess the impact of new technologies in our manufacturing process. Where new developments have the potential to impact on either our commercial position or cost competitiveness we develop appropriate plans to respond to these changes.</p>
Russia-Ukraine War	=	<p>The short and long term effects of the Russia – Ukraine war represent a risk to the operation of the business.</p> <p>At present there remains little revenue risk to the business given the relatively low level of sales to the affected region, however an extension of hostilities may affect our business in Europe and other global markets.</p> <p>The conflict may also restrict and increase price levels of key inputs to our manufacturing process.</p> <p>We mitigate these risks, where controllable, through management review and action.</p>

Risk	Risk Change	Risk Description
Currency Exposure	=	<p>The importance of exports as a proportion of our revenue means that our profitability will be subject to currency fluctuations related to export revenues and the costs of operation denominated in overseas currencies. Our non sterling receipts are principally denominated in Euros and US dollars.</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>
Cyber Security	=	<p>Our business uses information technology to manage our operations and deliver value. We continue to take appropriate steps to secure our systems from failure or malicious action.</p>
Regulation, Compliance and Taxation	↑	<p>Our operations are subject to regulation by many government and non government organisations. The Group aims to manage conformance to these regulations such that it is able to continue to operate and meet appropriate standards.</p> <p>As the majority of our products are used in the consumption of food, we are exposed to risk in relation to our products meeting accepted safety standards within the markets we serve. Each major geographic market applies different standards and legal penalties may be considerable for non compliance. New and more stringent standards may be introduced.</p> <p>We manage these risks principally through the monitoring of applicable standards, the testing of our products to ensure they meet these standards and sale in accordance with local regulations. We also, where practical, maintain appropriate external insurance.</p> <p>The markets in which the Group operates are generally subject to various taxes, tariffs and duties levied on sales, purchases, labour and energy usage 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>



Strategic Report

Key performance indicators

Revenue and revenue growth

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

	2022 £m	2021 £m	Growth %
Revenue			
Group	82.5	60.8	35.6%
Ceramics	75.3	55.6	35.5%
Materials*	7.2	5.2	37.4%
UK	33.2	24.4	36.1%
Export	49.3	36.4	35.3%

*Revenue from Materials is shown following the elimination of intra group trading as shown in note 2 to the financial statements.

Sales to both Ceramics and Materials markets rose as COVID-19 and related government restrictions on hospitality markets worldwide reduced. Volume levels increased as markets recovered and average prices rose as material and energy inflation was largely passed on to customers.

UK sales rose by 36%, again as a result of the reduction in effects of the pandemic and the improvement in the performance of the Materials business. Export sales rose by 35%. European revenues were supported by an underlying continuation of market share growth.

Operating profit and profit before income tax

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

	2022 £m	2021 £m	Growth %
Operating profit before exceptional items	9.2	6.1	49.3%
Operating margin before exceptional items	11.1%	10.1%	
Profit before exceptional items and income tax	9.1	6.0	51.8%
Exceptional items	0.5	–	
Profit before income tax	9.6	6.0	61.0%

Group operating profit before exceptional items rose substantially as the business recovered from the impact of the pandemic. Absolute levels of gross margin recovered given higher sales, but percentage levels remained below historic levels given labour inefficiency. Operating margins before exceptional items increased to 11.1%.

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 also rose substantially reflecting increases in Operating profit.

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

Exceptional income / cost: A number of one off revenues and costs were treated as exceptional during the year. Net exceptional income during the year was £0.5m (2021: £nil).

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.

	2022 £m	2021 £m	Growth %
Operating cash generation	4.9	10.6	-53.5%
Percentage of operating profit before exceptional items	53%	174%	
Percentage of operating profit before exceptional items (3 year average)	107%	130%	

Operating cash generation was impacted by several factors, notably the desire to increase inventory holding levels. The level of Trade and Other Receivables also increased as Revenues rose, although this was largely offset by increases in Trade and Other Payables. Employer contribution payments in respect of pension deficit amortisation rose to £1.8m per annum (2021: £1.4m).

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.

	2022 £m	2021 £m
Inventory	15.9	10.5

Inventory holding levels increased. Stock volumes of both raw materials, for supply chain security, and finished goods to improve customer service levels increased in line with our operational plans. Inventory valuation was also affected by increased material and energy costs.

Future outlook

The business expects to continue to progress during 2023 and believes that its long term strategy will continue to deliver value to stakeholders. A number of challenges have followed the impact of COVID-19, with higher levels of inflation affecting both input costs and the strength of consumer demand given increased costs of living. However the fundamentals of the Churchill business will continue to allow progress against our strategic targets. We have a well diversified business geographically with relatively low market shares outside of the UK, our markets are resilient and we have a well differentiated, technically strong product. We are beginning to make progress in addressing the efficiency constraints that impacted 2022 performance. The general trading and economic environment remains uncertain, but we believe that we remain well placed to deliver further progress.

We continue to experience good demand for our products, reflecting the success of our development strategy and the overall strength of market demand. Whilst order book levels are lower than at the half year end in June 2022, they remain well above historic levels. Higher manufacturing output has allowed us to improve customer service levels and increased inventory will allow more extended production runs. We will continue to target improvements in efficiency and have a number of capital projects targeted in this area.

We have sought to reflect the interests of customers, employees and shareholders in finding an appropriate solution to balance the effects of the changes in the business environment. We remain confident that our short term management and long term plans remain appropriate and will continue to deliver long term performance for all our stakeholders.

The Board believes that hospitality markets will continue to grow and that the Company's position within them will continue to strengthen. Our product range and its development reflect long term investment in innovation. Our improved market position is supported by a clear and consistent set of objectives and initiatives. Our financial position allows us to maintain a high level of investment in our operations giving us the ability to improve our capacity, our productivity and our efficiency.

The Company's overriding objectives remain to continue to developing our business in accordance with the core strategic aims of growing our export distribution and building a differentiated, high performance, product range that provides consistent value to our customers and to other stakeholders.

By order of the Board

D J S Taylor
Company Secretary
12 April 2023



Directors' Report

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2022.

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 40.

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 12.

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 Company has paid the following dividends in respect of the years ended 31 December 2022 and 31 December 2021:

	2022 £'000	2021 £'000
Ordinary dividend:		
Final dividend 2021 17.3p (2020: 0.0p) per 10p ordinary share	1,907	–
Interim dividend 2022 10.5p (2021: 6.7p) per 10p ordinary share	1,155	739
	3,062	739

The Directors now recommend payment of the following dividend:

Ordinary dividend:		
Final dividend 2022 21.0p (2021: 17.3p) per 10p ordinary share	2,310	1,907

Dividends on treasury shares held by the Company are waived.

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

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
B M Hynes*
A C Bromfield* (resigned 22 June 2022)
J M Moore*
R G W Williams* (appointed 11 October 2022)
C J Stephens* (appointed 15 February 2023)

* Non Executive

The Director retiring by rotation is D M O'Connor who being eligible, offers himself for re-election. A J McWalter has indicated that he will step down from the Board at the 2023 Annual General Meeting, he will not therefore seek re-election. B M Hynes has now served on the Board as a Non Executive Director for in excess of 9 years and as such will now seek re-election on an annual basis. R G W Williams and C J Stephens have been appointed to the Board since the last Annual General Meeting and will therefore seek election by shareholders at the Annual General Meeting. As at the date of the Director's Report the unexpired terms of the service contract of D M O'Connor is 12 months, and appointments of B M Hynes 12 months, R G W Williams 2 years 5 months and C J Stephens 2 years 9 months.

The biographical details of the Directors are as follows:

David O'Connor, Chief Executive Officer has worked for Churchill for 32 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 31 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. David will leave the Board following the approval of the Annual Report 2022 on 12 April 2023.

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 and is an alumnus of the Harvard Business School Advanced Management Program. He was appointed to the Board in 2015.

Alan McWalter, Non Executive Chairman joined the Group in January 2011. He is also Chairman of Newmarket Travel. He has previously held Chairmanship and Non Executive roles with numerous quoted and private companies. He was an Executive Director of Marks and Spencer and Kingfisher Group companies and held high level marketing and general management appointments in the Consumer Goods and Retail sectors. Alan will leave the Board following the conclusion of the Annual General Meeting on 8 June 2023.

Brendan Hynes, Non Executive Director and Senior Director, is an experienced Non Executive Director. 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.

Mark Moore, Non Executive Director. Mark joined the business during 2021 and has extensive Board level general management and manufacturing experience within a range of industries. He has previously worked within Morgan Advanced Materials plc and Essentra plc. He is a Chartered Engineer and holds degrees from the University of Bristol and Loughborough University.

Robin Williams, Non Executive Director. Robin joined the Board of Churchill China plc in October 2022. He is an engineering graduate and qualified chartered accountant with over 30 years' experience with listed companies, initially as an adviser and then as a CEO and co-founder of Britton Group plc and then as an Executive director of Hepworth plc, the building materials business. He is currently Independent Non Executive Chairman of Keystone Law Group plc and FIH Group plc, although he will step down from the latter role in September 2023. He is also a Non Executive Director of Headlam plc and of The Manufacturing Technology Centre Ltd, a private company.

Caroline Stephens, Non Executive Director. Caroline joined the Board in February 2023. She was a senior executive at Johnson & Johnson for over 25 years in multiple leadership roles including UK Marketing Director. Latterly, Caroline has been a consultant, adviser and director with roles including joining the Board of Tristel plc, an AIM listed infection control business as a Non-Executive Director, and the EMEA board of Ci&T, a global digital solutions specialist.

Taxation

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

Environmental, Social and Governance

This year's Annual Report contains more detailed information on the business' Environmental, Social and Governance policies and performance in accordance with developing reporting practice. This information is shown on page 16 within the Strategic Report. The following information is given in addition to these disclosures.

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 local, 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.

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.

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 in order to build an awareness amongst employees of the financial and economic factors that may affect the performance of the Group. 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 further educational colleges and training organisations to provide functional and vocational training for employees and our manufacturing and engineering based apprenticeship scheme targets the development of ceramic and other skills within our team. Our long-term commitment to the training and development of all our employees helps morale, motivation and labour retention. We remain committed to our graduate training programme helping local graduates into our industry. 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.

Disabled people applying for roles within the business are given full and fair consideration in relation to job vacancies. Employees who are disabled, or who become disabled during their employment enjoy the same career prospects and access to training and development programmes as other employees.

Our Continuous Improvement programme involves employees at all levels from across our Company and has proved valuable in unlocking the potential of our workforce. Each employee has access to training to develop their technical skills and their overall capabilities. This programme also helps to communicate important business issues to our workforce and helps to align their efforts with the overall business strategy. This initiative has been developed into a 'Train the Trainer' programme where employees are taught training skills such that they can pass their expertise on to less experienced staff.

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 Bonus scheme where employees with one year's service share in a bonus scheme linked to Group profitability. This scheme recognises our employee's efforts, encourages performance in line with value creation and allows them to share in the Group's success. In addition in the period from December 2022 to March 2023 we have introduced a one-off scheme where all employees receive a payment totalling £400 to help them deal with the increased cost of energy and other cost of living challenges.

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 undertaken 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

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.

The principal impacts of the Group's operations on the environment are in relation to the energy we consume and the waste products produced as part of our 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. We have made progressive improvements in developing our energy management processes at both strategic and operational levels over many years. We are focused on investing in research to provide long term solutions to reduce our energy footprint and in improving the efficiency of our manufacturing processes. We have replaced older systems and machinery with more modern energy efficient processes. Additional details are given in our Strategic Report.

We have increased our focus on managing and minimising the production of waste from our processes. 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.

Community

We understand that we have an impact on our local community and consider the effect of our actions on our local area. 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, materials and process technologies remains a cornerstone of our future strategy. The Group's aim is to continue to identify future market trends and then to design and develop products that meet these needs. We have maintained our investment in the development of new products across the year to take advantage of new market opportunities. A significant effort is made to develop our materials and process technologies to allow the introduction of more complex product designs and to improve energy usage. 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 £4.9m of cash flow from operations, paid corporate taxation of £1.0m and invested £4.7m in capital projects. Dividends of £3.1m were paid during the year. Net cash and deposits before lease liabilities at the 31 December 2022 were £14.7m (2021: £19.0m).

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.

Directors' Report

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

Financial instruments

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

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

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

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

Going Concern

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

The Board has considered alternative scenarios in relation to the impact higher levels of inflation, increasing energy costs and other potential impacts on the business environment. This review has included consideration of the impact of reductions in revenue, 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 for at least the next twelve months.

Land and buildings

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

Overseas operations

The Group operates trading subsidiaries in the United States of America and Spain.

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 6 April 2023 exceeded 3% of the Company's issued share capital:

Shareholder	Number of ordinary shares	Percentage
Investec Wealth and Investment	1,283,075	11.7%
S Roper	900,000	8.2%
Invesco	881,700	8.0%
Cannacord Genuity Wealth Management	664,919	6.0%
Rathbone Nominees Limited	632,033	5.7%
Highclere International Investors	413,012	3.8%
Phoenix Asset Management Partners	363,400	3.3%
E S & S J Roper	358,795	3.3%
A D & P H Roper	350,430	3.2%
Liontrust Asset Management	333,584	3.0%

Political contributions

The Group made no political contributions (2021: £nil) during the year.

Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the group financial statements in accordance with UK-adopted international accounting standards and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law).

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

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

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

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

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

Directors' confirmations

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

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

Independent auditors

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

By order of the Board

D J S Taylor
Company Secretary
12 April 2023

Corporate Governance

This statement is not audited.

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

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

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

The Board of Directors

The Board is currently composed of three Executive and five 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 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 three Board members, J M Moore, R G W Williams and C J Stephens are considered to be independent under the terms of the Code. A J McWalter and B M Hynes are not classed as independent under the terms of the Code, both due to their length of service on the Board. A J McWalter has served for over twelve years and B M Hynes for nine. The Board believes that, despite this lack of formal independence under the Code, A J McWalter and B M Hynes have retained a high degree of objectivity and that their experience has been, and continues to be, of significant benefit to the interests of shareholders as Board composition evolves.



Remuneration Report

B M Hynes became formally classed as non independent on 24 September 2022, when he had completed nine years of service as a Non Executive Director. For the period until the appointment of R G W Williams on 11 October 2022, the Board only contained one independent non Executive Director, J M Moore. This period of non-compliance with the Code is not felt to be significant. B M Hynes remains Chair of the Company's Audit Committee during the period of the change of Chief Financial Officer and External Audit Partner. The Company will initiate a process to recruit a new independent Director to Chair the Audit Committee during 2023.

As noted in the Chairman's Statement, A J McWalter will retire as Chairman in June 2023, to be succeeded by R G W Williams.

The Board's succession planning process has been affected by the impact of COVID-19 on the business and the need to maintain an experienced team during a period of considerable challenge to our operations. This succession planning process has now been recommenced and a number of changes to both Executive and Non Executive members have been announced.

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 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
D J S Taylor	13	13
D M O'Connor	13	13
A J McWalter	13	13
B M Hynes	13	13
J A Roper	13	11
A C Bromfield	8	7
J M Moore	13	13
R G W Williams	3	3

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 J M Moore.

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 during the period to the date of this report.

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

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

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

Internal financial control

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

By order of the Board

D J S Taylor

Company Secretary
12 April 2023

Annual Statement

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

The Remuneration Committee's work during the year has largely reflected the review of the Company's Remuneration Policy and its application to Directors' remuneration levels. Work has also been completed in relation to the design and implementation of a new Long Term Incentive Plan, which was approved by shareholders at the 2022 Annual General Meeting. The Committee has, at all times, borne in mind the links between remuneration, business performance and the interests of shareholders, employees and other stakeholders.

The Company adopts a long term approach to the development of its business, emphasising steady growth and the management of risk. The Remuneration Policy seeks to reflect this and to balance fixed and variable pay components accordingly. The design of variable pay does not encourage short term decision making and the Remuneration Committee believes that there is an appropriate balance between annual profit bonus targets, medium term development objectives and the promotion of longer term growth.

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 and in accordance with good practice. As 2023 is the third anniversary of the last full review of the Company's policy, a full review has been undertaken in conjunction with specialist remuneration advisers and updated policy is shown later in this report. This policy will apply with effect from June 2023;
- Base salary levels were reviewed and an increase of 6.0% applied, in line with the increase given to the majority of staff;
- The review of performance against 2021 bonus targets;
- Performance bonus levels were set for the 2022 financial year to encourage continued performance against increased targets in what was expected to be a challenging business environment and to support the long term development of the business. This included the continuation of bonus schemes giving incentive to achieve elevated performance levels;
- The level of grant of new awards and the associated performance targets for vesting under the Long Term Incentive Plan ('LTIP') were considered. The Remuneration Committee concluded that the level of grant should remain in line with previous years, but that vesting conditions should only reward the achievement of targets in line with the higher levels of profitability achieved prior to the impact of COVID-19; and
- Consideration and approval of the remuneration implications for the Company's succession planning process.

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 Remuneration Committee has considered overall performance in the year to 31 December 2022 and is satisfied that the outcome of the remuneration policy in 2022 is consistent with both the results delivered in year and progress against longer term targets and other metrics. Profit before exceptional items and taxation increased by more than 50%, despite a number of challenges to our operations. The business has also made good progress against strategic targets in a number of areas, including operational strategy and our longer term energy position.

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 J M Moore, who acts as Chair, B M Hynes, R G W Williams and C J Stephens. A C Bromfield was Chair of the Committee until her resignation on 22 June 2022. All members of the Committee are Non Executive Directors. D M O'Connor (Chief Executive Officer) attended Remuneration Committee meetings, but withdrew from any meeting where his remuneration was discussed. The Remuneration Committee has received advice from FIT Remuneration Consultants LLP during the year. The total fees paid to FIT Remuneration Consultants were £18,000.

Directors' Remuneration Policy

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

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

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

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

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

Remuneration Report

Future policy table

Executive Directors

The table below describes each of the elements of the remuneration package for the Executive Directors.

This policy will apply from June 2023

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Basic pay Core element of fixed remuneration to help recruit and retain employees of the appropriate calibre and experience	<p>Basic pay for Executive Directors is normally reviewed annually (but may be reviewed more frequently if required).</p> <p>Consideration is given to the following when determining basic pay levels:</p> <ul style="list-style-type: none"> Market conditions, including typical pay levels for comparator companies taking into account the relative scale and complexity of the role and business Scale and scope of the role, experience and performance of the individual Average change in salary for the workforce as a whole The annual pay review is conducted on 1 April each year. 	<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"> A Director assuming additional responsibilities Significant improvement in individual performance Significant change in the size or scope of a Directors' role. Where salary is initially set below market levels for a newly appointed Director to allow for progress in their role 	<p>Not applicable, although overall performance of the individual and the Company is considered by the Remuneration Committee when setting and reviewing salaries.</p>
Annual Bonus Rewards the achievement of annual financial and strategic business targets, as well as the delivery of personal objectives Clawback and malus applies in a number of circumstances 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 material misstatement of results, serious misconduct or reputational damage and 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>
Benefits Provide a market competitive benefits package to help recruit and retain employees of the appropriate calibre and experience	<p>Executive Directors are entitled to receive benefits including healthcare benefits and a fully expensed company car (or cash allowance) where it is deemed necessary to their role.</p> <p>Executive Directors are entitled to receive repayment of costs deemed necessary for them to perform their duties.</p> <p>Other benefits may be provided based on individual circumstances, including, but not limited to, housing or relocation expenses.</p>	<p>Set at a level which the Remuneration Committee considers to be appropriately positioned, taking into account the scale and scope of the role and market conditions in comparator companies.</p>	<p>Not applicable.</p>

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Pensions Provide market competitive post-employment benefits to help recruit and retain employees of the appropriate calibre and experience	Executive Directors are entitled to membership of Company pension schemes in operation from time to time. The Company currently operates a defined contribution scheme. The Company previously operated a defined benefit scheme, which was closed for future accrual in 2006. Two Executive Directors are deferred members of this scheme. Executive Directors may choose to receive a salary supplement in lieu of pensions up to the value of the normal contribution level at no extra cost to the Company. Bonus and other benefits received by Executive Directors do not count towards pensionable pay.	Up to 10% of basic pay under the defined contribution scheme.	Not applicable.
Long term incentive schemes Incentivises employees to achieve a higher and sustained level of return to shareholders over a longer period of time Supports retention and promotes share ownership Clawback and malus applies in a number of circumstances to enable the Company to mitigate risk	The Company operates an LTIP approved by shareholders on 22 June 2022. 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. Once exercised, the net shares remaining after the payment of associated tax charges must be retained for a further two years. The Remuneration Committee has the right to operate both clawback and malus provisions in respect of LTIP awards in relation to material misstatement of results, serious misconduct or reputational damage, and corporate failure, which may have occurred at any time before claw back is operated. LTIP payments are non-pensionable.	Executive Directors may normally be granted LTIP awards up to 100% of salary each year. For threshold performance, 25% of the award vests. For on-target performance, 40% of the award vests. For maximum performance, 100% of the award vests. Straight line vesting applies between threshold, target and maximum vesting. In exceptional circumstances, such as recruitment, where it may be necessary to grant a buy-out award, Executive Directors may be granted LTIP awards of up to 150% of salary each year.	Challenging performance targets are set each year reflecting the business priorities that underpin longer term Group strategy. At least 50% of the LTIP award will normally vest based on adjusted Basic Earnings Per Share performance targets.

There were no significant changes to Remuneration Policy during the year. Since the end of the year, the Policy has been updated and changes will apply from June 2023.

Non-Executive Directors

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

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

There were no significant changes to the 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 £	Pay in lieu of pension £	Annual bonus £	Total remuneration £
2022					
Executive					
D J S Taylor	236,299	582	20,639	160,480	418,000
D M O'Connor	306,667	582	26,810	208,466	542,525
J A Roper	252,890	727	14,557	161,698	429,872
Non Executive					
A J McWalter	84,767	–	–	–	84,767
B M Hynes	47,300	–	–	–	47,300
A C Bromfield*1	23,261	–	–	–	23,261
J M Moore	47,300	–	–	–	47,300
R G W Williams*2	12,069	–	–	–	12,069
	1,010,553	1,891	62,006	530,644	1,990,163
2021					
Executive					
D J S Taylor	222,623	534	19,563	223,036	465,756
D M O'Connor	289,392	534	25,412	289,728	605,066
J A Roper	239,313	668	13,798	224,728	478,507
Non Executive					
A J McWalter	80,000	–	–	–	80,000
B M Hynes	44,524	–	–	–	44,524
A C Bromfield	44,524	–	–	–	44,524
J M Moore*3	29,836	–	–	–	29,836
	950,212	1,736	58,773	737,492	1,748,213

A C Bromfield*1 Until resignation 22 June 2022

R G W Williams*2 From date of appointment 11 October 2022

J M Moore*3 From date of appointment 19 April 2021

This section of the Remuneration Report is not audited.

All Directors, with the exception of A J McWalter, received an increase in base salary of 6.0% during the year, in line with the base rise given to the majority of other staff. A J McWalter's salary is adjusted every three years and was raised by 8.7% in May 2022, reflecting the base rise in salaries since his pay was last increased in 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. Pension costs above represent contributions made by the Group to defined contribution schemes or payments in lieu of such contributions.

Performance bonuses

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

During 2022, Executive Directors were able to earn a maximum of 100% 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, 56% for maximum profit objectives and 76% for the achievement of super-maximum profit objectives. A further 24% of salary could be earned against specified personal objectives. Straight line vesting applied between threshold, target and maximum performance levels.

In 2022, threshold profit bonus levels were payable on the achievement of an operating profit before exceptional items of £8,230,000, on target profit levels were payable on the achievement of operating profits before exceptional items of £8,660,000, maximum target profit levels were operating profits before exceptional items of £9,500,000 and super-maximum target profit levels were operating profits before exceptional items of £10,000,000.

Profit based awards during the year were of 44% of base salary and personal objectives represented 24% of base salary.

The operation of the annual performance bonus scheme for 2023 has been amended to reflect increased performance targets, taking into consideration the interests of shareholders.

Compensation for loss of office

As part of the Company's succession planning process, the Company agreed with D J S Taylor that he would leave his position as Finance Director on 12 April 2023 and a settlement agreement to this effect was signed on 12 December 2022. Under this settlement agreement, D J S Taylor will receive a sum of £385,000. The total sum to be paid includes pay in lieu of a notice period of twelve months, as provided in his service contract and, in accordance with International Accounting Standards, this will be accounted for in the 2023 financial statements. This agreement is integral to the successional changes to the Board that are noted in the Corporate Governance Report (page 25).

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 2021	Options granted	Options lapsed	Number of options 31 December 2022	Date from which exercisable	Expiry date
D J S Taylor						
2021 grant	13,538	–	–	13,538	June 2024	June 2031
2022 grant	–	16,918	–	16,918	June 2025	June 2032
D M O'Connor						
2021 grant	17,586	–	–	17,586	June 2024	June 2031
2022 grant	–	21,977	–	21,977	June 2025	June 2032
J A Roper						
2021 grant	13,641	–	–	13,641	June 2024	June 2031
2022 grant	–	17,046	–	17,046	June 2025	June 2032

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

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

Remuneration Report

Share price movements during the year

The market price of the Company's shares at the end of the financial year was 1,175p (2021: 1,762.5p). The range of prices for the year to 31 December 2022 was 1,772.5p to 1,070p (2021: 1,265p to 2,025p) 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 not active members of a Company pension scheme 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 30 and were at an equivalent rate of 10% of basic salary for D J S Taylor and D M O'Connor and 7% for J A Roper.

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

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

Directors' service contracts

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

Non Executive Directors are generally, initially, appointed on fixed term contracts for a period of three years before moving to renewal every 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 other than the specified notice period.

	Date of signature	Unexpired term at 31 December 2022
Executive		
D J S Taylor	6 October 2009	3 months
D M O'Connor	15 May 2012	12 months
J A Roper	3 November 2015	12 months
Non Executive		
A J McWalter	18 May 2022	5 months
B M Hynes	12 April 2022	3 months
J M Moore	25 January 2021	1 year 1 month
R G W Williams	29 September 2022	2 years 9 months
C J Stephens	1 February 2023	Not applicable*

* C J Stephens' service contract was signed on 1 February 2023

Directors' interests

This section of the Remuneration Report is audited.

The interests of the Directors and their immediate families and family trusts at 31 December 2022 in the 10p ordinary shares of the Company were as follows:

	2022	2021
D J S Taylor	43,555	50,555
D M O'Connor	23,655	31,655
A J McWalter	6,000	6,000
B M Hynes	4,000	4,000
J A Roper	994,035	995,835
J M Moore	270	270
R G W Williams	–	–
C J Stephens	–	–
	1,071,515	1,088,315

J A Roper's interest in the 10p ordinary shares of the Company at 31 December 2022 represented 9.0% (2021: 9.0%) of the Company's issued share capital.

There has been no change in the interests set out above between 31 December 2022 and 12 April 2023.

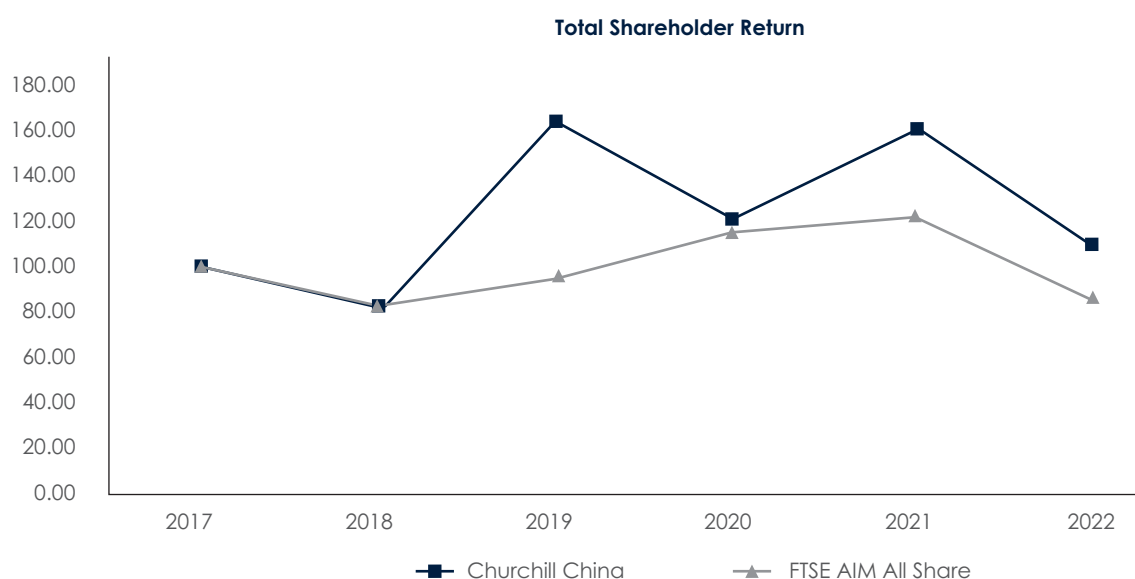
Director shareholding requirements

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

Shareholder consultation

The Remuneration Committee will consult with major shareholders in relation to its operation and, particularly, in relation to any major changes in the 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 2022 Annual General Meeting, the standard resolution, in relation to the approval of the Report of the Remuneration Committee contained in the Annual Report for 2021, was passed. 99.9% of votes were cast in favour of the resolution, 0.1% against, with abstentions of 0.0%.



(Source: Investec Bank plc)

Over a five year period the Group's total return to shareholders has remained above that generated by the AIM All Share index. Total returns from the Company in the year have fallen as a result of a reduction in our share price, despite increased profitability. The Group has also increased dividend payments to shareholders during the year.

Our overall five year return has fallen to an average compound rate of 1.9% (AIM: -3.4%). Over the five year period total shareholder return from the Group has been 10%, whilst that achieved by the AIM index as a whole was -15.9%. In the year to 31 December 2022, the overall return from the Group was -32%, (AIM: -30.7%).

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:

	2017	2018	2019	2020	2021	2022
Single figure of remuneration (£'000)	686	617	810	293	605	543
Bonus payout (of base salary)	70%	70%	70%	0%	99%	68%
LTIP vesting (of maximum)	100%	100%	100%	0%	0%	0%
Profit before exceptional items and income tax (£'000)	7,460	9,388	11,176	848	5,963	9,054
Share price at 31 December	1,142.5p	940p	1,820p	1,340p	1,762.5p	1,175p

On behalf of the Board

J M Moore

Chair of the Remuneration Committee

12 April 2023

Nomination Committee Report

Annual Statement

The Company's succession process has required substantial consideration over the last three years and has been complicated by the impact of COVID-19 on the Company and the consequent decision to maintain an experienced team during a period of substantial disruption to the business. Planning in relation to a number of Executive and Non Executive roles has been ongoing for some time and the process to implement changes to develop and strengthen the Board for the longer term is now under way.

The Nomination Committee has considered a number of matters during the year, including:

- Consideration of the current and future structure, size and composition of the Board, including assessment of its skills, knowledge and experience. Levels of diversity and independence within the Board have been clear areas of focus;
- Further development and implementation of a formal succession plan covering the Company's Board and the Board of its principal subsidiary Churchill China (UK) Limited;
- The recruitment of a further experienced independent Non Executive Director, R G W Williams, who joined the Board in October 2022;
- Recruitment of a new Chief Financial Officer to replace D J S Taylor, who will step down from his role in April 2023. M Cunningham will join the Company later in the Spring to fulfil this role;
- Initiation of a process to recruit a further Non Executive Director in line with the succession planning process referred to above. This recruitment was completed in February 2023 when C J Stephens was appointed to the Board.

The Board recognises the need for independence within its Non Executive Directors and has a Board with three independent members. Alongside this desire to maintain an appropriate level of independence, the Board also recognises the benefit that experience and knowledge of the business and its values bring to the Company. Our succession planning and nomination processes will always attempt to balance these two objectives.

Further Board changes are proposed in the upcoming year. A J McWalter will stand down as Non Executive Chairman at the 2023 Annual General Meeting in June and will be replaced in this position by R G W Williams. It is also likely that a further experienced Non Executive Director will be recruited over the next twelve months with the aim of maintaining an appropriate level of independence.

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

A J McWalter

Chair of the Nomination Committee

12 April 2023

Audit Committee Report

Annual Statement

The Audit Committee has considered a number of matters since the beginning of 2022, including:

- Review of the annual and interim financial results and the Annual Report;
- Consideration of the Report of the External Auditors, PricewaterhouseCoopers LLP, to the Audit Committee;
- An audit re-tender process was carried out during the year to review the appointment of the current auditors, PricewaterhouseCoopers LLP, and to establish whether they provided an audit of appropriate quality, effectiveness and efficiency. PricewaterhouseCoopers LLP's appointment as Auditors was confirmed;
- Agreement of the Audit Plan of the External Auditors for the year to 31 December 2022, including the scope of work to be carried out;
- Review of the independence, effectiveness and level of fees to be paid to the External Auditors;
- Consideration of a number of detailed financial and disclosure areas; and
- Consideration of the Company's Risk Review process and the changes in risk arising from changes in the business environment with particular reference to financial performance, new and emerging risks, business continuity and financial resilience.

Financial reporting and significant financial issues

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

The Group's accounting policies and procedures in relation to the valuation of inventory, a key area of focus for the business, have been reviewed. The value of inventory at 31 December 2022 was £15.9m and has increased substantially from the corresponding figure for 2021 of £10.5m reflecting increase, both in the quantity of stock held and its valuation, given increases in input costs. The Committee is satisfied that the Group's policies and procedures have been consistently applied and that the valuation of inventory is appropriate.

The Audit Committee has considered the position of the Group's Defined Benefit Pension Scheme, and believes that it is appropriate to recognise the surplus of £6.9m as calculate under IAS 19 as an asset within the Financial Statements.

Auditors

In line with the Financial Reporting Council Ethical Standard, the External Audit Engagement Partner is rotated every five years. The current External Audit Partner, Mark Skedgel of PricewaterhouseCoopers (PwC), was appointed during the 2018 financial year and will, consequently, stand down after the completion of the audit of the 2022 financial year. The Board, on the recommendation of the Audit Committee, has appointed Sarah Phillips of PwC to replace Mark Skedgel. Sarah Phillips has been fully briefed, during the audit of the 2022 Annual Report, to facilitate a smooth handover in readiness for the audit of the 2023 financial year.

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

12 April 2023

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 2022 and of the group's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including 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, which comprise: the consolidated and company balance sheets as at 31 December 2022; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement and 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 other listed entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- We conducted a full scope audit of Churchill China (UK) Limited and Churchill China plc, as well as targeted procedures on specific balances in Furlong Mills Limited, which collectively accounts for 99% of consolidated revenue, 100% of profit before income tax and 95% of total assets.
- The consolidation adjustments included within the consolidated results of the group have been audited to overall group performance materiality.

Key audit matters

- Inventory valuation (group)

Materiality

- Overall group materiality: £480,000 (2021: £339,699) based on 5% of profit/loss before tax from continuing operations (2021: 5 year average profit/loss before tax from continuing operations).
- Overall company materiality: £103,000 (2021: £102,960) based on 1% of total assets.
- Performance materiality: £360,000 (2021: £254,744) (group) and £77,250 (2021: 77,220) (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.

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.

The key audit matters below are consistent with last year.

Key audit matter

How our audit addressed the key audit matter

Inventory valuation (group)

Refer to the Audit Committee Report, the critical accounting estimates and judgements in note 1 to the accounts, and note 14 (Inventories).

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. There is a risk that the provision is materially misstated given the quantum and inherent levels of estimation uncertainty in its determination.

For a sample of inventory lines, we tested the inputs to the provision calculation, including historical sales data, agreed stock levels, scrap values and the cost of the item, agreeing the respective inputs to supporting information.

We tested the integrity of the provision calculation model to assess whether it was mathematically accurate.

In order to assess whether the methodology used to calculate the provision is appropriate, we have performed a sample test over items discounted during the year to determine whether they were sold below cost during 2022, and were appropriately provided for.

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

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 financial statements are predominantly a consolidation of three UK statutory entities, comprising the group's main trading entity, Churchill China (UK) Limited, the Churchill China plc company and Furlong Mills Limited. In establishing the overall approach to the group audit strategy, we concluded that Churchill China (UK) Limited and Churchill China plc are full scope components. Where balances in out of scope components, such as Furlong Mills Limited, are in excess of group performance materiality and contribute a significant proportion of a certain financial statement line item, these balances have also been subject to audit procedures. For the two full scope components, we have allocated materiality to these components and designed our audit testing for each financial statement line item based on the size and nature of the transactions and balances for 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 company financial statements.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the group's and company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the group's and company's financial statements.

Materiality

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

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

	Financial statements – group	Financial statements – company
Overall materiality	£480,000 (2021: £339,699).	£103,000 (2021: £102,960).
How we determined it	5% of profit/loss before tax from continuing operations (2021: 5 year average profit/loss before tax from continuing operations).	1% of total assets
Rationale for benchmark applied	Profit before tax (PBT) is the primary measure used by the shareholders in assessing the performance of the group and is a generally accepted auditing benchmark. In 2021, the average of the past 5 years' PBT was used due to COVID-19 significantly impacting the prior year trading and PBT. In 2022 trading and PBT has reverted to normal, pre-pandemic levels and so it is appropriate to use current year PBT as the benchmark for materiality this year.	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 and this is a generally accepted auditing benchmark.

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 £103,000 and £456,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £360,000 (2021: £254,744) for the group financial statements and £77,250 (2021: 77,220) for the company financial statements.

Independent auditors' report to the members of Churchill China plc

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £24,000 (group audit) (2021: £16,985) and £5,150 (company audit) (2021: £5,148) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Evaluating management's detailed cash flow forecasts and liquidity headroom under both a base case and downside scenarios;
- Testing that the cash flows are consistent with board approved forecasts;
- Assessing management's track record of forecasting accuracy;
- Testing the integrity of management's cash flow models; and
- Assessing whether any mitigating actions are within the control of management.

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2022 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.

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

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

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Reviewing minutes of meetings of those charged with governance;
- Made enquiries as to whether there was any correspondence with legal advisors;
- Challenging assumptions and judgements made by management in their significant accounting estimates; and
- Testing of journals posted to revenue and expenses that have unusual account combinations.

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Mark Skedgel (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
12 April 2023

Consolidated Income Statement

for the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Revenue	2	82,528	60,839
Operating profit before exceptional items		9,142	6,122
Exceptional items	3	547	–
Operating profit	3	9,689	6,122
Finance income	6	60	5
Finance costs	6	(148)	(164)
Profit before exceptional items and income tax		9,054	5,963
Exceptional items	3	547	–
Profit before income tax		9,601	5,963
Income tax expense	8	(1,706)	(1,797)
Profit for the year		7,895	4,166
Basic earnings per ordinary share	9	71.7p	37.8p
Adjusted basic earnings per ordinary share	9	66.9p	37.8p

All of the above figures relate to continuing operations.

The notes on pages 48 to 69 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2022

	2022 £'000	2021 £'000
Other comprehensive income		
Items that will not be reclassified to profit and loss:		
Remeasurements of post-employment benefit obligations net of tax	9,332	1,499
Items that may be reclassified, subsequently, to profit and loss:		
Impact of change in UK tax rate on deferred tax	–	557
Currency translation differences	58	10
Other comprehensive income for the year	9,390	2,066
Profit for the year	7,895	4,166
Total comprehensive income for the year	17,285	6,232

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.

Consolidated Balance Sheet

as at 31 December 2022

	Note	2022 £'000	2021 £'000
Assets			
Non-current assets			
Property, plant and equipment	11	23,039	21,021
Intangible assets	12	849	1,022
Deferred income tax assets	19	132	1,842
Retirement benefit assets	20	6,924	–
		30,944	23,885
Current assets			
Inventories	14	15,889	10,486
Trade and other receivables	15	14,380	10,877
Other financial assets	16	5,057	4,005
Cash and cash equivalents		9,604	15,046
		44,930	40,414
Total assets		75,874	64,299
Liabilities			
Current liabilities			
Trade and other payables	17	(14,291)	(12,268)
		(14,291)	(12,268)
Non-current liabilities			
Lease liabilities	18	(477)	(217)
Deferred income tax liabilities	19	(4,458)	(1,975)
Retirement benefit obligations	20	–	(7,156)
Non current liabilities		(4,935)	(9,348)
Total liabilities		(19,226)	(21,616)
Net assets		56,648	42,683
Equity attributable to owners of the Company			
Issued share capital	21	1,103	1,103
Share premium account	21	2,348	2,348
Treasury shares	22	(431)	(80)
Other reserves		1,344	1,195
Retained earnings		52,284	38,117
Total equity		56,648	42,683

The notes on pages 48 to 69 are an integral part of these consolidated financial statements. The financial statements on pages 40 to 69 were approved by the Board of Directors on 12 April 2023 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 2022

	Note	2022 £'000	2021 £'000
Fixed assets			
Intangible assets	12	735	939
Investments in subsidiaries	13	7,008	6,999
		7,743	7,938
Current assets			
Trade and other receivables: non-current	15	1,970	2,033
Trade and other receivables: current	15	393	232
Deferred income tax assets	19	33	15
Cash at bank and in hand		187	78
		2,583	2,358
Creditors: amounts falling due within one year			
Trade and other payables	17	(50)	(43)
Net current assets		2,533	2,315
Total assets less current liabilities		10,276	10,253
Net assets		10,276	10,253
Equity attributable to owners of the Company			
Issued share capital	21	1,103	1,103
Share premium account	21	2,348	2,348
Treasury shares	22	(431)	(80)
Other reserves		145	45
Retained earnings		7,111	6,837
Total equity		10,276	10,253

The notes on pages 48 to 69 are an integral part of these financial statements.

The financial statements on pages 40 to 69 were approved by the Board of Directors on 12 April 2023 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 £3,343,000 (2021: loss of £330,000).

Consolidated Statement of Changes in Equity

for the year ended 31 December 2022

	Note	Retained earnings £'000	Issued share capital £'000	Share premium account £'000	Treasury shares £'000	Other reserves £'000	Total equity £'000
Balance at 1 January 2021		32,555	1,103	2,348	(80)	1,215	37,141
Comprehensive Income:							
Profit for the year		4,166	–	–	–	–	4,166
Other comprehensive income/(expense):							
Depreciation transfer – gross		12	–	–	–	(12)	–
Depreciation transfer – tax		(3)	–	–	–	3	–
Deferred tax – change in rate		623	–	–	–	(66)	557
Remeasurement of post-employment benefit obligations – net of tax		1,499	–	–	–	–	1,499
Currency translation		–	–	–	–	10	10
Total comprehensive income		6,297	–	–	–	(65)	6,232
Transactions with owners							
Dividends relating to 2021	10	(739)	–	–	–	–	(739)
Share based payment	21	–	–	–	–	45	45
Deferred tax – share based payment	19	4	–	–	–	–	4
Total transactions with owners		(735)	–	–	–	45	(690)
Balance at 31 December 2021		38,117	1,103	2,348	(80)	1,195	42,683
Comprehensive Income:							
Profit for the year		7,895	–	–	–	–	7,895
Other comprehensive income/(expense):							
Depreciation transfer – gross		12	–	–	–	(12)	–
Depreciation transfer – tax		(3)	–	–	–	3	–
Remeasurement of post-employment benefit obligations – net of tax		9,332	–	–	–	–	9,332
Currency translation		–	–	–	–	58	58
Total comprehensive income		17,236	–	–	–	49	17,285
Transactions with owners							
Dividends relating to 2022	10	(3,062)	–	–	–	–	(3,062)
Treasury Shares	22	–	–	–	(351)	–	(351)
Share based payment	21	–	–	–	–	100	100
Deferred tax – share based payment	19	(7)	–	–	–	–	(7)
Total transactions with owners		(3,069)	–	–	(351)	100	(3,320)
Balance at 31 December 2022		52,284	1,103	2,348	(431)	1,344	56,648

Other Reserves

Included within other reserves are the revaluation, currency reserve and share based payment reserves.

Company Statement of Changes in Equity

for the year ended 31 December 2022

	Note	Retained earnings £'000	Issued share capital £'000	Share premium account £'000	Treasury shares £'000	Other reserves £'000	Total equity £'000
Balance at 1 January 2021		7,902	1,103	2,348	(80)	–	11,273
Comprehensive Income:							
Loss for the year		(330)	–	–	–	–	(330)
Total comprehensive income		(330)	–	–	–	–	(330)
Transactions with owners							
Dividends relating to 2021	10	(739)	–	–	–	–	(739)
Share based payment	21	–	–	–	–	45	45
Deferred tax – share based payment	19	4	–	–	–	–	4
Total transactions with owners		(735)	–	–	–	45	(690)
Balance at 31 December 2021		6,837	1,103	2,348	(80)	45	10,253
Comprehensive expense:							
Profit for the year		3,343	–	–	–	–	3,343
Total comprehensive expense		3,343	–	–	–	–	3,343
Transactions with owners							
Dividends relating to 2022	10	(3,062)	–	–	–	–	(3,062)
Treasury shares	22	–	–	–	(351)	–	(351)
Share based payment	21	–	–	–	–	100	100
Deferred tax – share based payment	19	(7)	–	–	–	–	(7)
Total transactions with owners		(3,069)	–	–	(351)	100	(3,320)
Balance at 31 December 2022		7,111	1,103	2,348	(431)	145	10,276

Other Reserves

Included within other reserves are the revaluation, currency and share based payment reserves.

Consolidated Cash Flow Statement

for the year ended 31 December 2022

	2022 £'000	2021 £'000
Cash flows from operating activities		
Cash generated from operations (see page 47)	4,939	10,627
Interest received	60	5
Interest paid	(35)	(28)
Income tax paid	(991)	(854)
Net cash generated from operating activities	3,973	9,750
Cash flows from investing activities		
Purchases of property, plant and equipment	(4,618)	(3,740)
Proceeds on disposal of property, plant and equipment	15	43
Purchases of intangible assets	(86)	(12)
Net purchase of other financial assets*	(1,052)	(747)
Net cash used in investing activities*	(5,741)	(4,456)
Cash flows from financing activities		
Dividends paid	(3,062)	(739)
Principal elements of leases	(263)	(247)
Purchase of treasury shares	(351)	–
Net cash used in financing activities*	(3,676)	(986)
Net (decrease)/increase in cash and cash equivalents	(5,444)	4,308
Cash and cash equivalents at the beginning of the year	15,046	10,738
Exchange loss on cash and cash equivalents	2	–
Cash and cash equivalents at the end of the year	9,604	15,046

* During the year, the net purchase of other financial assets has been reclassified to be presented as a cash flow from investing rather than financing activity.

Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

for the year ended 31 December 2022

	2022 £'000	2021 £'000
Continuing operating activities		
Operating profit after exceptional items	9,689	6,122
Adjustments for:		
Depreciation and amortisation	2,983	2,838
Gain on disposal of property, plant and equipment	(4)	(5)
Charge for share based payments	100	45
Defined benefit pension cash contribution (see note 20)	(1,750)	(1,362)
Changes in working capital:		
Inventory	(5,403)	2,337
Trade and other receivables	(3,067)	(6,396)
Trade and other payables	2,391	7,048
Net cash inflow from operations	4,939	10,627

Notes to the Financial Statements

for the year ended 31 December 2022

1. Summary of significant accounting policies

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

Group significant accounting policies

Basis of Preparation

The financial statements of Churchill China plc have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The consolidated financial statements have been prepared under the historical cost convention, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and defined benefit pension plan measured at fair value.

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

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

Going concern

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

The Board has considered alternative scenarios in relation to the effect of loss of revenues and input cost rises. 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.

These reviews indicate that it is reasonable for the business to expect to continue in operational existence for at least the next twelve months.

New standards and interpretations not yet adopted

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

Basis of consolidation

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

The financial statements of each undertaking in the Group are prepared to the balance sheet date under FRS 101. Subsidiary 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 deconsolidated from the date that control ceases.

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

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

Segment reporting

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

Revenue

The group manufactures and sells a range of ceramic tableware and raw materials to the ceramics industry. Revenue and a corresponding receivable are recognised when title and control of the products has transferred, since, at this point in time, the consideration is unconditional because only the passage of time is required before payment is due. Sales of ceramic tableware are made on an ex-works basis, with revenue being recognised at the point of despatch. Sales of raw materials are made on a delivered basis, with revenue recognised following delivery to the relevant customer site.

Products are often sold with retrospective volume discounts based on aggregate sales over a 12-month period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts percentage contractually agreed. Actual experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No significant element of financing is deemed present, because the sales are made with a standard credit term, consistent with market practice. The group's obligation to replace faulty products under the quality and edge chip warranty terms is recognised in other creditors.

1. Summary of significant accounting policies continued

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

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

Leases

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

Operating profit and exceptional items

Operating profit is stated both before and after the effect of exceptional items, but before the Group's 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, non-trading-related income, material impairments of non-current assets, material profits and losses on the disposal of assets, 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 net obligation/asset presented in the balance sheet is calculated on an actuarial basis at the reporting date. An asset position is recognised where the assets of scheme exceed the present value of the liabilities, if, in accordance with the scheme rules and accounting standards, the Group believes any surplus recognised would be recoverable. 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 income or 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.

Notes to the Financial Statements

continued

1. Summary of significant accounting policies continued

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

Derivative financial instruments

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

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

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
Plant and machinery	10–25 on cost
Motor vehicles	25 on reducing net book value
Fixtures and fittings	25–33 on cost

Freehold land and assets in the course of construction 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 amount.

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, which have suffered an impairment, are reviewed for possible reversal of the impairment at each reporting date.

1. Summary of significant accounting policies continued

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.

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.

The Group routinely invests in deposit accounts, whereby, between 32 and 95 days notice is required to withdraw the cash. The Group do not consider these items to be short-term highly liquid investments that are readily convertible into cash and consequently these are presented as an other financial asset, rather than cash and cash equivalent within the financial statements.

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.

During the year, amounts in respect of the net purchase of other financial assets have been re-presented as a cash flow from investing, rather than financing activity, given these give rise to an asset, rather than equity or borrowings. The re-presentation has resulted in net cash used in investing activities being £1,052,000 higher (2021: £747,000 higher) and cash used in financing activities being £1,052,000 lower (2021: £747,000 lower). There is no impact on the remainder of the financial statements.

Provisions

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

Financial risk management

Financial risk factors

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

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

(a) Market risk

(i) Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily in relation to the US dollar and Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Details of the year end receivables in their respective currency can be found in note 15.

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 2022, if Sterling had weakened by 5% against the US dollar with all other variables held constant, post-tax profit for the year would have been £254,000 (2021: £260,000) 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 £26,000 (2021: £23,000) higher, mainly as a result of differences in the translation of US dollar investments in subsidiary undertakings. If Sterling had weakened by 5% against the Euro with all other variables held constant, post-tax profit for the year would have been £942,000 (2021: £699,000) 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 2022, had the interest rates achieved been 5% higher with all other variables held constant, then post-tax profit for the year would have been £3,000 higher (2021: unchanged). Other components of equity would have been unchanged.

Notes to the Financial Statements

continued

1. Summary of significant accounting policies continued

(b) Credit risk

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

Cash and cash equivalents are as follows:

	2022 £'000	2021 £'000
A1/A+ institutions	9,604	15,046

Other financial assets are as follows:

	Credit rating	2022 £'000	2021 £'000
Santander UK plc	A1	3,036	3,003
HSBC Bank plc	A1	2,021	–
Lloyds Bank plc	A1	–	1,002
		5,057	4,005

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 15).

(c) Price risk

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

(d) Liquidity risk

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

The Group has no long-term borrowing and funds its operations from its own cash reserves, and the Directors do not consider there to be significant liquidity risk. All liabilities are generally due within 3 months with the exception of lease liabilities for which the maturity profile is set out in note 23.

Capital risk management

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

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

The Group currently has no debt.

Fair value estimation

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

Key sources of estimation uncertainty

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

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

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

The Group identifies inventory where it is believed that the quantity held is in excess of that which may be realised at normal price levels. The realisable value of this inventory is assessed taking into account the estimated sales price less further costs of sale. If the net realisable value of excess inventories were to be 10% higher than management's estimates the value of this provision would reduce by £265,000 (2021: £235,000). 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 £265,000 (2021: £234,000).

1. Summary of significant accounting policies continued

(b) Pension benefits assumptions (estimate):

The present value depends on several factors on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost of 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, which 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 20.

(c) Pension surplus (judgement):

The retirement benefit asset/obligations recognised on the balance sheet represents the surplus or deficit in the Group's defined benefit pension scheme calculated on an IAS19 basis at the end of the reporting period. The Group has assessed the recoverability of any net asset arising from a surplus position as applicable under IFRIC 14. The Group considers that, based on the Trust Deed and Scheme rules, that any surplus would be recoverable on cessation of the scheme.

It is not considered that any items meet the definition of a key source of estimation uncertainty for the Company.

Parent Company significant accounting policies

Basis of preparation

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

Disclosure exemptions

The Company has adopted the disclosure exemptions covering the following standards as permissible by Financial Reporting Standard 101 'Reduced Disclosure Framework':

- (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

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, which 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.

Other

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

There are no significant estimates or judgements relating to the parent company.

Notes to the Financial Statements

continued

2. Segmental analysis

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

	2022 £'000	2021 £'000
Market segment – Revenue		
Ceramics	75,335	55,605
Materials	13,500	8,773
	88,835	64,378
Intra-group revenue	(6,307)	(3,539)
Group Revenue	82,528	60,839

	2022 £'000	2021 £'000
Geographical segment – Revenue		
United Kingdom	33,244	24,424
Rest of Europe	31,888	24,241
USA	8,715	6,388
Rest of the World	8,681	5,786
	82,528	60,839

The profits of the business are allocated as follows:

	2022 £'000	2021 £'000
Operating profit before exceptional items		
Ceramics	7,932	5,628
Materials	1,210	494
	9,142	6,122

Exceptional items		
Ceramics	484	–
Materials	63	–
	547	–

Operating profit after exceptional items		
Ceramics	8,416	5,628
Materials	1,273	494
	9,689	6,122

Unallocated items		
Finance income	60	5
Finance costs	(148)	(164)
Profit before income tax	9,601	5,963

	2022 £'000	2021 £'000
Segmental Assets		
Ceramics	66,469	57,799
Materials	9,405	6,500
	75,874	64,299

	2022 £'000	2021 £'000
Segmental Liabilities		
Ceramics	15,625	19,844
Materials	3,601	1,772
	19,226	21,616

Capital expenditure on tangible and intangible assets was made as follows:

Ceramics £4,178,000 (2021: £3,386,000), Materials £662,000 (2021: £169,000).

3. Operating profit

	2022 £'000	2021 £'000
(Income)/Expenses by nature		
Changes in inventories of finished goods and work in progress	(3,144)	2,999
Raw materials used	7,445	4,843
Purchase of goods for resale	5,274	2,205
Employee benefit expense – before exceptional costs (note 5)	27,533	21,728
Other external charges – before exceptional costs	33,264	20,321
Other external income – exceptional	(550)	–
Employee benefit expense – exceptional	415	–
Other external charges – exceptional	59	–
Profit on disposal – exceptional	(471)	–
Depreciation and amortisation charges	2,983	2,838
Profit on disposal of property, plant and equipment	(4)	(5)
Foreign exchange loss/(gain)	35	(212)
Total cost of sales, distribution costs and administrative expenses	72,839	54,717

During the year, the Company received £471,000 as a payment in relation to the voluntary winding up of a ceramic industry trade body of which the Company was a member. Due to the size and nature of this income, the receipt has been treated as an exceptional profit on disposal. The liquidation has been finalised post year end, with no charges against this amount arising.

Exceptional income of £550,000 relates to COVID-19 Rate Relief credits received from Stoke-on-Trent City Council for the reduced activity during 2020 due to the impact of COVID-19 on the Group's core market. Related to this receipt, the Group has recognised exceptional costs totalling £415,000, to support all of our employees with the increased cost of living. The first of these payments was made in December 2022 and the final payments amounting to £100 each per employee per month will be made in March 2023. This leaves a net income of £135,000, which will be used to support further training and development moving forward.

Other external exceptional costs in the year are legal fees relating to employment advice.

Of the net total exceptional items of £547,000 (£532,000 net of tax), £843,000 has been received in the year and £296,000 will be paid in 2023.

4. Average number of people employed

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

	2022 Number	2021 Number
By activity		
Production and warehousing	590	430
Sales and administration	212	198
	802	628

The Company had no employees other than Directors (2021: none).

Notes to the Financial Statements

continued

5. Employee benefit expense

	2022 £'000	2021 £'000
Staff costs (for the employees shown in note 4)		
Wages and salaries	23,885	18,963
Social security costs	2,517	1,787
Defined contribution pension cost (see note 20)	867	644
Other pension costs (see note 20)	164	289
Share options granted to directors and employees (see note 21)	100	45
	27,533	21,728
Exceptional – employee cost-of-living support (note 3)	415	–
	27,948	21,728

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 (page 26). In addition statutory disclosures in respect of the number of Directors to whom retirement benefits are accruing is disclosed. There are no 'non-directors' that are considered to be key management personnel.

Company

The Company did not make any payments to employees (2021: nil). Director emoluments disclosed within the Remuneration Report include fees for services provided for the Company.

6. Finance income and costs

	2022 £'000	2021 £'000
Interest income on cash and cash equivalents	60	5
Finance income	60	5
Interest on defined benefit schemes (note 20)	(113)	(136)
Interest on lease liabilities	(35)	(23)
Other interest	–	(5)
Finance costs	(148)	(164)
Net finance cost	(88)	(159)

7. Auditors' remuneration

	2022 £'000	2021 £'000
During the year, the Group obtained the following services from the Company's auditors:		
Fees payable to the Company's auditors for the audit of the Company and consolidated financial statements (Company £6,000, 2021: £5,000)	259	226
Total fees payable to the Group's auditors	259	226

8. Income tax expense

	2022 £'000	2021 £'000
Group		
Current tax – current year	764	604
Current tax – current year exceptional	14	–
– adjustment in respect of prior periods	(147)	67
Current tax	631	671
Deferred tax (note 19)		
Current year	1,075	660
Current year – change in rate	–	466
Deferred tax	1,075	1,126
Income tax expense	1,706	1,797

8. Income tax expense continued

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

	2022 £'000	2021 £'000
Profit before income tax	9,601	5,963
Tax calculated at domestic tax rates applicable to profits in the respective countries	1,824	1,133
Expenses not deductible for tax purposes	53	52
Adjustment in respect of prior periods	(147)	67
Change in rate of deferred tax balances	–	466
Other	(24)	79
Tax charge	1,706	1,797

The weighted average tax rate for the year was 19% (2021:19%). Following the announcement of the UK Government's intention to increase Corporation Tax rates from 19% to 25%, with effect from 2023, deferred tax balances were provided for at 25% in the year ending December 2021, and, as such, there is no impact of change in rate in the current year.

During the year, a charge of £3,111,000 (2021: charge of £501,000) in relation to deferred tax, arising from actuarial gains and losses on the Group's defined benefit pension obligation, and a debit of £7,000 (2021: credit of £4,000) in relation to deferred taxation on share based payments were adjusted directly within equity.

9. Earnings per ordinary share

Basic earnings per ordinary share is based on the profit after income tax and on 11,009,068 (2021: 11,022,835) ordinary shares, being the weighted average number of ordinary shares in issue during the year. Adjusted basic earnings per share is calculated after adjusting for the post-tax effect of exceptional items (see Note 3).

	2022 Pence per share	2021 Pence per share
Basic earnings per share (Based on earnings £7,895,000 (2021: £4,166,000))	71.7	37.8
Less: Exceptional Items: £532,000 (2021: £nil)	(4.8)	–
Adjusted basic earnings per share (based on adjusted earnings £7,363,000 (2021: £4,166,000))	66.9	37.8

10. Dividends

The dividends paid in the year were as follows:

Group and Company

Ordinary	2022 £'000	2021 £'000
Final dividend 2021 17.3p (2021: nil) per 10p ordinary share	1,907	–
Interim 2022 10.5p (2021: 6.7p) per 10p ordinary share paid	1,155	739
	3,062	739

The Directors now recommend payment of the following dividend:

Ordinary dividend:

Final dividend 2022 21.0p (2021: 17.3p) per 10p ordinary share	2,310	1,907
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Dividends on treasury shares held by the Company are waived.

Notes to the Financial Statements

continued

11. Property, Plant and Equipment

The Company has no property, plant and equipment (2021: none). Details of property, plant and equipment relating to the Group are as follows:

Group	Freehold land and buildings £'000	Plant and Machinery £'000	Motor vehicles £'000	Fixtures and fittings £'000	Total £'000	
At 1 January 2021						
Cost	18,101	34,138	657	2,491	55,387	
Accumulated depreciation	(6,166)	(26,800)	(324)	(2,039)	(35,329)	
Net book amount	11,935	7,338	333	452	20,058	
Year ended 31 December 2021						
Opening net book amount	11,935	7,338	333	452	20,058	
Additions	411	2,937	93	102	3,543	
Disposals	–	(17)	(21)	–	(38)	
Depreciation charge	(365)	(1,861)	(100)	(216)	(2,542)	
Closing net book amount	11,981	8,397	305	338	21,021	
At 31 December 2021						
Cost	18,512	36,984	673	2,593	58,762	
Accumulated depreciation	(6,531)	(28,587)	(368)	(2,255)	(37,741)	
Net book amount	11,981	8,397	305	338	21,021	
Year ended 31 December 2022						
Opening net book amount	11,981	8,397	305	338	21,021	
Additions	415	4,081	172	81	4,749	
Disposals	–	(6)	(6)	–	(12)	
Depreciation charge	(368)	(2,051)	(115)	(185)	(2,719)	
Closing net book amount	12,028	10,421	356	234	23,039	
At 31 December 2022						
Cost	18,693	40,996	806	2,674	63,169	
Accumulated depreciation	(6,665)	(30,575)	(450)	(2,440)	(40,130)	
Net book amount	12,028	10,421	356	234	23,039	
Net book value of Right-of-Use-assets included within Property, Plant and Equipment						
	Note					
At 31 December 2022	23	310	152	232	–	694
At 31 December 2021	23	64	167	132	–	363

Included within Property, Plant and Equipment is £966,000 classified as Plant and Machinery (2021: £968,000 classified in Land and Buildings), which meet the classification of Assets in the Course of Construction.

12. Intangible assets

The Company holds intangible assets with a cost of £1,500,000 and a net book value of £735,000 (2021: £939,000) in relation to Dudson trademarks. These are the only intangible assets the Company holds and it is the only individually material intangible asset to the group. The remaining weighted average amortisation period of the Dudson trademark is 4.2 years.

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

Group	Computer software £'000	Trademarks £'000	Total £'000
At 1 January 2021			
Cost	1,248	1,500	2,748
Accumulated amortisation	(1,085)	(357)	(1,442)
Net book amount	163	1,143	1,306
Year ended 31 December 2021			
Opening net book amount	163	1,143	1,306
Additions	12	–	12
Amortisation charge	(92)	(204)	(296)
Closing net book amount	83	939	1,022
At 31 December 2021			
Cost	1,260	1,500	2,760
Accumulated amortisation	(1,177)	(561)	(1,738)
Net book amount	83	939	1,022
Year ended 31 December 2022			
Opening net book amount	83	939	1,022
Additions	91	–	91
Amortisation charge	(60)	(204)	(264)
Closing net book amount	114	735	849
At 31 December 2022			
Cost	1,351	1,500	2,851
Accumulated amortisation	(1,237)	(765)	(2,002)
Net book amount	114	735	849

13. Investments in subsidiaries

Company

	2022 £'000	2021 £'000
Cost		
At 1 January	7,431	7,431
Addition – Incorporation of subsidiary	9	–
At 31 December	7,440	7,431
Impairment		
At 1 January and 31 December	(432)	(432)
Net book value		
At 1 January	6,999	6,999
Addition – Incorporation of subsidiary	9	–
At 31 December	7,008	6,999

Notes to the Financial Statements

continued

13. Investments in subsidiaries continued

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 and voting rights	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 China RM S.R.L.****	Romania	Ordinary	100%	Provision of management services
Churchill Housewares Limited*	England and Wales	Ordinary	100%	Dormant
Churchill Ceramics (UK) Ltd.*	England and Wales	Ordinary	100%	Dormant
James Broadhurst & Sons Ltd.*	England and Wales	Ordinary	100%	Dormant
Churchill Tableware Limited*	England and Wales	Ordinary	100%	Dormant
Churchill Fine Bone China Holdings* Limited	England and Wales	Ordinary	100%	Dormant
Churchill Fine Bone China Limited*	England and Wales	Ordinary	100%	Dormant
Elizabethan Fine Bone China Limited*	England and Wales	Ordinary	100%	Dormant

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

The consolidated financial statements include the results of each of the subsidiaries listed in the table above. Churchill China (UK) Limited and Furlong Mills Ltd have taken an exemption from audit for the year ended 31 December 2022 by virtue of s479A of the Companies Act 2006. In order to allow these subsidiaries to take the audit exemption, Churchill China plc has provided a guarantee to these subsidiaries in accordance with s479C of the Companies Act 2006. This guarantees that Churchill China plc will support these subsidiaries in full going forward, will not recall any loans and will provide financial support should it be required.

* Registered address: No.1, Marlborough Way, Tunstall, 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: 32 Dorobanti Way, 1st District, Bucharest, Romania

14. Inventories

The Company has no inventory (2021: none). Details of inventory relating to the Group are as follows:

	2022 £'000	2021 £'000
Raw materials	3,633	1,374
Work in progress	1,303	1,124
Finished goods	10,953	7,988
	15,889	10,486

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

The cost of inventories recognised as an expense, and included in the income statement, amounted to £50,471,000 (2021: £36,709,000). 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 £129,000 (2021: decrease of £760,000).

15. Trade and other receivables

	Group		Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Trade receivables	12,954	10,279	–	–
Less: provision for impairment of trade receivables	(326)	(196)	–	–
Trade receivables – net	12,628	10,083	–	–
Prepayments and other debtors	1,162	565	–	–
Corporation tax	590	229	–	–
Receivables from group undertakings	–	–	2,363	2,265
	14,380	10,877	2,363	2,265
Less non-current portion: loans to group undertakings	–	–	(1,970)	(2,033)
Current portion	14,380	10,877	393	232

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

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

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

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

As of 31 December 2022, trade receivables of £9,562,000 (2021: £8,493,000) were fully performing.

As of 31 December 2022, trade receivables of £1,509,000 (2021: £60,000) were past due, but not impaired.

The ageing of these receivables is as follows:

	2022	2021
	£'000	£'000
Up to 3 months	1,501	4
3 to 6 months	5	36
Over 6 months	3	20
	1,509	60

As of 31 December 2022, trade receivables with a gross value of £2,693,000 (2021: £1,467,000) were impaired and provided for. The amount of provision for 31 December 2022 was £326,000 (2021: £196,000). 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:

	2022	2021
	£'000	£'000
Up to 3 months	2,682	1,464
3 to 6 months	10	3
Over 6 months	1	–
	2,693	1,467

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:

	2022	2021
	£'000	£'000
At 1 January	196	288
Increase/(Decrease) in provision for receivables impairment	109	(90)
Written back/(off) during the year	21	(2)
At 31 December	326	196

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

15. Trade and other receivables continued

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

	2022	2021
	£'000	£'000
Pounds	9,677	7,420
Euros	3,759	2,824
US dollar	934	620
Canadian dollar	10	13
	14,380	10,877

During the year, the Group realised gains of £58,000 (2021: gains of £27,000) on settled forward option contracts that have been recognised in the Income Statement, and, as at 31 December 2022, held foreign currency exchange contracts for the sale of Euro of £6,575,000 (2021: £7,487,000) and the sale of US dollars of £2,882,000 (2021: £1,846,000). These contracts are held at their fair value with a loss of £148,000 (2021: loss of £25,000) recognised in relation to the contracts outstanding at the year end.

Company

As of 31 December 2022, all Company trade receivables 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:

	2022	2021
	£'000	£'000
Pounds	2,217	2,142
US dollar	146	123
	2,363	2,265

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

16. Other financial assets

	Group		Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Other financial assets	5,057	4,005	–	–

Other financial assets represent term deposits made with banks not classified as cash and cash equivalents with maturities of less than one year as at the balance sheet date. The deposits are not impaired. Further detail of other financial assets is given within note 1.

17. Trade and other payables

		Group		Company	
		2022	2021	2022	2021
	Note	£'000	£'000	£'000	£'000
Trade payables		4,422	4,013	–	–
Social security and other taxes		855	835	–	–
Accrued expenses		8,761	7,228	37	43
Lease liabilities	18	253	192	–	–
Payable to group companies		–	–	13	–
		14,291	12,268	50	43

All the above liabilities mature within 12 months from the year end.

18. Lease liabilities

	Group	
	2022	2021
	£'000	£'000
Lease liabilities – current	253	192
Lease liabilities – non current	477	217
	730	409

Further analysis relating to the lease liabilities acquired is included in Note 23.

19. 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:

	2022	2021
Group	£'000	£'000
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	46	1,501
- Deferred tax asset to be recovered within 12 months	86	341
	132	1,842
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	(3,936)	(351)
- Deferred tax liabilities to be recovered within 12 months	(522)	(1,624)
	(4,458)	(1,975)
Deferred tax liability	(4,326)	(133)

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

	2022	2021
	£'000	£'000
At 1 January	(133)	933
Income statement charge (note 8)	(1,075)	(1,126)
Tax credits relating to components of comprehensive income	–	56
Tax (charged)/credited directly to equity	(3,118)	4
At 31 December	(4,326)	(133)

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	Land and building revaluation	Retirement benefit obligation	Other	Total
	£'000	£'000	£'000	£'000	£'000
Deferred tax liabilities					
At 1 January 2021	915	211	–	23	1,149
Tax charges relating to components of comprehensive income	–	66	–	–	66
Charged/(credited) to the income statement	756	(3)	–	7	760
At 31 December 2021	1,671	274	–	30	1,975
Charged/(credited) to the income statement	756	(3)	–	(1)	752
Reclassification from assets	–	–	1,731	–	1,731
At 31 December 2022	2,427	271	1,731	29	4,458

Notes to the Financial Statements

continued

19. Deferred income tax continued

	Retirement benefit obligation	Other	Total
	£'000	£'000	£'000
Deferred tax assets			
At 1 January 2021	1,973	109	2,082
Charged to the income statement	(306)	(60)	(366)
Tax credits relating to components of comprehensive income	122	–	122
Credited directly to equity	–	4	4
At 31 December 2021	1,789	53	1,842
Charged to the income statement	(409)	86	(323)
Tax charges relating to components of comprehensive income	(3,111)	–	(3,111)
Charged directly to equity	–	(7)	(7)
Reclassification to liabilities	1,731	–	1,731
At 31 December 2022	–	132	132

The deferred tax asset relates wholly to the defined benefit pension scheme. The deferred tax asset will be recognised as the defined benefit pension scheme unwinds.

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

	2022	2021
	£'000	£'000
Fair value reserves in shareholders' equity for both group and company:		
Tax on share based payments	7	(4)
	7	(4)

Deferred income tax of £3,000 (2021: £3,000) 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 £1,155,000 (2021: £1,273,000) in respect of capital losses amounting to £4,621,000 (2021: £5,092,000) that can be carried forward against future capital gains.

Company

Deferred tax assets of £3,000 are recognised relating to short term timing differences (2021: £15,000 relating to unrelieved tax losses). The net charge to the Income Statement and Statement of Comprehensive Income was £25,000 (2021: charge of £83,000).

20. Retirement benefit asset

	2022	2021
	£'000	£'000
Balance sheet asset/(obligations)		
Pension benefits	6,924	(7,156)
Income statement charge		
Pension benefits	1,031	933
Finance costs	113	136

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

Scheme	2022	2021	Nature
Churchill Group Retirement Benefit Scheme	–	–	Final salary defined benefit plan. Closed to new entrants in 1999 and to which the accrual of future benefits ceased in 2006
Churchill China 2019 Pension Scheme	£830,000	£612,000	Defined contribution (Master Trust)
Furlong Mills Ltd. Pension Plan	£8,000	£14,000	Defined contribution plan
Furlong Mills Ltd. section of the Now Pension scheme	£29,000	£18,000	Defined contribution auto enrolment scheme

The assets of the schemes are held separately from those of the Group. The total pension cost for the Group was £1,031,000 (2021: £933,000). 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 £211,000 (2021: £91,000).

No contributions have been made to the Churchill Group Retirement Benefit Scheme ('the RBS') in relation to current service since the date of cessation of the future accrual of benefits on 31 March 2006. A contribution of £1,750,000 (2021: £1,362,000) was made in respect of the amortisation of past service liabilities during the year.

20. Retirement benefit asset continued

The Board of Trustees of the Churchill RBS are responsible for the administration and governance of the scheme. The forward funding rate of the Scheme was agreed with the Scheme Trustees and Actuary following the completion of the 31 May 2020 triennial actuarial valuation in November 2021. The Group has agreed to make payments of £1,750,000 per annum in respect of the amortisation of past service deficits for three years to October 2024, and £1,284,000 per annum until May 2028, in respect of the amortisation of past service deficits.

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

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

	2022	2021
	£'000	£'000
Present value of funded obligations	(39,700)	(61,007)
Fair value of plan assets	46,624	53,851
Asset/(liability) in balance sheet	6,924	(7,156)

The funding level of the RBS has improved substantially during the year, as a result of an increase in discount rates applied to scheme liabilities following higher general interest rates. The scheme's investment strategy has been adjusted to reflect revised market conditions. The Company is reviewing the forward position in relation to future scheme funding.

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

	2022	2021
	£'000	£'000
At 1 January	61,007	61,447
Interest cost	1,086	850
Experience gains on liabilities	3,652	(45)
Re-measurements from change in demographic assumptions	(47)	399
Re-measurements from change in financial assumptions	(24,667)	(188)
Benefits paid	(1,331)	(1,456)
At 31 December	39,700	61,007

Included within net scheme liabilities is a liability of £712,000 (2021: £1,008,000) offset by a matching insurance policy asset of £712,000 (2021: £1,008,000) in respect of annuitised member benefits.

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

	2022	2021
	£'000	£'000
At 1 January	53,851	51,065
Expected return on plan assets	973	714
Re-measurement of return on plan assets excluding amounts included in interest expense	(8,619)	2,166
Employer contributions	1,750	1,362
Benefits paid	(1,331)	(1,456)
At 31 December	46,624	53,851

Plan assets are comprised as follows:

	2022		2021	
	£'000		£'000	
Equity investment funds	12,358	27%	27,112	50%
Absolute return funds	2,270	5%	9,140	17%
Other investment funds	1,316	3%	1,304	2%
Debt investments	27,523	59%	12,741	24%
Cash and cash equivalents	3,157	7%	3,554	7%
	46,624		53,851	

The expected return on plan assets under IAS 19 (revised) is calculated at the same rate used to discount scheme liabilities. Less than 0.2% (2021: less than 0.2%) of plan assets are unquoted.

Notes to the Financial statements

continued

20. Retirement benefit asset continued

The amounts recognised in the income statement are as follows:

	2022	2021
	£'000	£'000
Interest cost on defined benefit plans	113	136

The actual return on plan assets was a loss of £7,646,000 (2021: gain of £2,880,000).

Re-measurement gains of £12,443,000 (2021: gains of £2,000,000) 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 £9,237,000 (2021: £21,680,000).

The principal actuarial assumptions used were as follows:

Pension benefits

	2022 % per annum	2021 % per annum
Discount rate	4.9%	1.8%
Inflation rate - RPI	3.2%	3.4%
- CPI	2.8%	2.9%
Rate of increase of pensions in payment	2.6%	2.8%
Rate of increase of deferred pensions	2.8%	2.9%

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:

	2022 Years	2021 Years
Male	20.8	20.7
Female	22.6	22.5

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

	2022 Years	2021 Years
Male	22.1	22.0
Female	24.1	24.0

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.

20. Retirement benefit asset continued

Sensitivity

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

The effect of a 0.25% decrease in the discount rate to 4.65% would be to increase scheme liabilities by £1,352,000 (3.4%).

The effect of a 0.25% increase in CPI inflation to 3.05% would increase scheme liabilities by £934,000 (2.4%).

The effect of a 1 year increase to life expectancy would increase scheme liabilities by £1,029,000 (2.6%).

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

21. Called up share capital and share premium account

Group and Company	Number of shares	Ordinary shares	Share premium
	'000s	£'000	£'000
At 1 January 2022 and 31 December 2022	11,030	1,103	2,348

The total authorised number of ordinary shares is 14,300,000 (2021: 14,300,000) with a par value of 10p (2021: 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	28 June 2022	11 June 2021
Share price at grant date	1,415p	1,628p
Exercise price	10p	10p
Number of employees	11	3
Shares under option	84,056	44,765
Vesting period (years)	3	3
Expected volatility	39.2%	37.2%
Option life (years)	10	10
Expected life (years)	3	3
Risk-free rate	1.7%	0.4%
Expected dividends expressed as a dividend yield	1.7%	1.9%
Fair value per option	1,302p	1,341p

The following options exercisable over ordinary shares were outstanding at 31 December 2022 under the Long Term Incentive Plan:

Number of shares	2022	2021	Exercise price	Date from which exercisable	Expiry date
June 2021 Grant	44,765	44,765	10p	June 2024	June 2031
June 2022 Grant	84,056	–	10p	June 2025	June 2032
	128,821	44,765			

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 2022 is set out below.

Notes to the Financial Statements

continued

21. Called up share capital and share premium account continued

	2022	2022	2021	2021
	Number '000	Weighted average exercise price	Number '000	Weighted average exercise price
Outstanding at 1 January	44,765	10.0p	31,904	10.0p
Granted	84,056	10.0p	44,765	10.0p
Lapsed	–	10.0p	(31,904)	10.0p
Outstanding at 31 December	128,821	10.0p	44,765	10.0p
Exercisable at 31 December	–	–	–	–

There were 84,056 share options granted during the year (2021: 44,765).

	2022	2022	2022	2022	2021	2021	2021	2021
	Weighted average exercise price	Number '000	Weighted average remaining life (expected)	Weighted average remaining life (contractual)	Weighted average exercise price	Number '000	Weighted average remaining life (expected)	Weighted average remaining life (contractual)
0–50p	10p	128,821	2.2	9.2	10p	44,765	2.5	9.5

The weighted average price for options exercised in the year was nil (2021: nil). The total charge during the year for employee share based payment plans was £100,000 (2021: charge of £45,000) before tax, which related to equity settled share based payment transactions.

22. Treasury shares

Group and Company	2022 £'000	2021 £'000
As at 1 January	80	80
Purchase of own shares	351	–
As at 31 December	431	80

During the year, the Group repurchased 25,000 (2021: nil) 10p ordinary shares at a market price of £14.00 per share and reissued nil (2021: nil) under employee share option schemes. The Group currently holds 32,337 (2021: 7,337) shares in Treasury.

23. Leases

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

	2022 £'000	2021 £'000
Right of Use Assets – Net Book Value		
Land and Buildings	310	64
Plant & Equipment	152	167
Motor Vehicles	232	132
Total	694	363

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

	2022 £'000	2021 £'000
Depreciation charge on Right of Use Assets		
Land and Buildings	87	89
Plant & Equipment	92	68
Motor Vehicles	72	53
Total	251	210

23. Leases continued

	Land and Buildings	Plant & Equipment	Motor Vehicles	Total
Lease Liability	£'000	£'000	£'000	£'000
Opening at 1 January 2021	164	190	79	433
Additions	–	130	93	223
Payments	(107)	(122)	(41)	(270)
Interest	12	8	3	23
At 31 December 2020	69	206	134	409
Opening at 1 January 2022	69	206	134	409
Additions	333	79	172	584
Payments	(108)	(115)	(75)	(298)
Interest	23	9	3	35
At 31 December 2022	317	179	234	730

The maturity of lease liabilities is as follows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2022	2021
	£'000	£'000
Within 1 year	285	192
Between 1 and 5 years	537	281
Total	822	473

The total cash outflow for Leases in the year was £298,000 (2021: £270,000).

24. Capital commitments

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

	Group		Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Property, Plant and Equipment	507	2,170	–	–
Intangible assets: Computer software	–	11	–	–
	507	2,181	–	–

25. Related party transactions

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

26. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items in the financial statements. All financial assets including cash and cash equivalents, other financial assets, and trade and related party receivables are classified as amortised cost, with the exception of derivative financial instruments classified as fair value through profit and loss, in both 2022 and 2021, as disclosed in note 15. Derivative financial instruments disclosed in note 15 are classified as level 2 in the fair value hierarchy, given this is the fair value of financial instrument not traded in an active market and is determined using valuation techniques, which maximise the use of observable market data and rely as little as possible on entity-specific estimates. All significant inputs required to fair value an instrument are observable and, therefore, the instrument is included in level 2.

All amounts shown in notes 17 and 18 are financial liabilities measured at amortised cost.

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

Five-Year Financial Record

(unaudited)

	2018 £'000	2019 £'000	2020 £'000	2021 £'000	2022 £'000
Revenue	57,479	67,502	36,362	60,839	82,528
Operating profit before exceptional item	9,237	11,242	922	6,122	9,142
Exceptional items	(541)	117	(757)	–	547
Operating profit	8,696	11,359	165	6,122	9,689
Share of results of associate net of impairment	185	(22)	–	–	–
Net Finance cost	(34)	(44)	(74)	(159)	(88)
Profit before exceptional item and income tax	9,388	11,176	848	5,963	9,054
Exceptional items	(541)	117	(757)	–	547
Profit before income tax	8,847	11,293	91	5,963	9,601
Income tax (expense)/credit	(1,649)	(2,136)	22	(1,797)	(1,706)
Profit for the year	7,198	9,157	113	4,166	7,895
Dividends paid	2,840	3,356	–	739	3,062
Net assets employed	37,967	41,841	37,141	42,683	56,648
Ratios					
Operating margin before exceptional items	16.1%	16.7%	2.5%	10.1%	11.1%
Earnings before exceptional items, interest, tax, depreciation and amortisation (£000)	10,941	13,594	3,508	8,960	12,125
Basic earnings per share (p)	65.6	82.6	1.0	37.8	71.7
Adjusted basic earnings per share (p)	69.6	81.7	6.5	37.8	66.9



The production of this report supports the work of the Woodland Trust, the UK's leading woodland conservation charity. Each tree planted will grow into a vital carbon store, helping to reduce environmental impact as well as creating natural havens for wildlife and people.



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