

**Churchill China (UK) Limited**  
**Annual report and financial statements**  
**for the year ended 31 December 2022**

Registered number: 00270153

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# Churchill China (UK) Limited

## Annual report and financial statements for the year ended 31 December 2022

	<b>Page</b>
Directors and advisers .....	3
Strategic report for the year ended 31 December 2022.....	4
Directors' report for the year ended 31 December 2022 .....	16
Income statement for the year ended 31 December 2022 .....	21
Statement of comprehensive income for the year ended 31 December 2022.....	21
Statement of financial position as at 31 December 2022.....	22
Statement of changes in equity for the year ended 31 December 2022.....	23
Notes to the financial statements for the year ended 31 December 2022.....	24

# **Churchill China (UK) Limited**

## **Directors and advisers**

### **Executive directors**

D M O'Connor  
D J S Taylor (Resigned 12 April 2023)  
P G Scragg  
S R Brown  
J A Roper  
S Heap  
M T Sinclair (Appointed 12 April 2023)  
M Cunningham (Appointed 8 June 2023)

### **Company secretary and registered office**

M T Sinclair ACA  
No.1, Marlborough Way  
Tunstall  
Stoke on Trent  
Staffordshire  
ST6 5NZ

### **Solicitors**

Addleshaw Goddard LLP  
One St Peters Square  
Manchester  
M2 3DE

### **Bankers**

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

# Churchill China (UK) Limited

## Strategic report for the year ended 31 December 2022

The directors present their Strategic report and the financial statements of the Company for the year ended 31 December 2022.

A review of the operations of the Company during the year and its future prospects are given in the Business review 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 activity and business environment**

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

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

Hospitality markets 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.

# Churchill China (UK) Limited

## Strategic report for the year ended 31 December 2022 (continued)

### Principal activity and business environment (continued)

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 having regard for the interests of other stakeholders in the business.

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

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

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

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

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

# **Churchill China (UK) Limited**

## **Strategic report for the year ended 31 December 2022 (continued)**

### **Promoting the success of the Company (continued)**

The business has regular contact with our workforce through both formal and informal mechanisms. The scale of our business and our open culture allows 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 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 36 days (2021: 37 days) of invoice. We believe our suppliers regard Churchill as a good customer.

### **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.

We operate from one site in Stoke on Trent, England, a leading centre for ceramic excellence worldwide. This gives us access to key suppliers, technical support and experienced staff. Our 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.

# Churchill China (UK) Limited

## Strategic report for the year ended 31 December 2022 (continued)

### Strategy

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

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

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

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

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.

# Churchill China (UK) Limited

## Strategic report for the year ended 31 December 2022 (continued)

### Performance (continued)

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 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.

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.

### 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).

### 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.

# **Churchill China (UK) Limited**

## **Strategic report for the year ended 31 December 2022 (continued)**

### **Environmental, Social and Governance (continued)**

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 several hundred people 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.

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.

# Churchill China (UK) Limited

## Strategic report for the year ended 31 December 2022 (continued)

### Environmental, Social and Governance (continued)

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

#### 2022 ACTIONS

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

# Churchill China (UK) Limited

## Strategic report for the year ended 31 December 2022 (continued)

### 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 in the Annual Report on page 16.

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.

	<b>2022 Base</b>	<b>2022 REGO*</b>	2021 Base	2021 REGO*
Tonnes of CO2				
Scope 1 – Direct emissions	<b>13,718</b>	<b>13,718</b>	10,712	10,712
Scope 2- Indirect emissions	<b>2,240</b>	<b>42</b>	1,991	1,489
Total	<b>15,958</b>	<b>13,760</b>	12,703	12,201
Intensity metric: Scope 1 and 2 per metric tonne of raw material input	<b>2.16</b>	<b>1.86</b>	2.73	2.62
Total UK energy consumption (MWh)	<b>86,840</b>	<b>86,840</b>	67,896	67,896

The Company's total use of energy grew by 28% 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, 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 to the use of electricity from renewable sources with effect from October 2021.

# Churchill China (UK) Limited

## Strategic report for the year ended 31 December 2022 (continued)

### Principal risks and uncertainties

The Company'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 Company's business model and strategy. The Company then implement processes and controls to appropriately manage and mitigate these risks. The principal business risks currently affecting the Company are Market and Business Environment Change, Currency Exposure, Manufacturing and Supply Chain, People, Cyber Security and Regulation, Compliance and Taxation, Russia – Ukraine War - a more detailed review of these risks can be found in the Strategic Report of Churchill China Plc Annual Report.

### Review of business and Key performance indicators

#### Revenue and Revenue growth

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

Revenue	2022 £m	2021 £m	Growth %
Company	75.3	55.6	35.5%
UK	26.1	19.2	35.8%
Export	49.2	36.4	35.3%

Sales to customers rose by 35.5% 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 35.8%, again as a result of the reduction in effects of the pandemic. Export sales rose by 35.3%. European revenues were supported by an underlying continuation of market share growth.

# Churchill China (UK) Limited

## Strategic report for the year ended 31 December 2022 (continued)

### Operating profit and profit before taxation

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	8.2	5.9	38.8%
Operating margin	10.9%	10.7%	
Profit before exceptional items and income tax	8.1	5.8	41.0%
Exceptional items	-	-	
Profit before income tax	8.1	5.8	41.2%

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 10.9%.

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 £13k (2021: £nil).

### Operating cash generation

The Company 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.

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).

# Churchill China (UK) Limited

## Strategic report for the year ended 31 December 2022 (continued)

### Customer service and inventory

Customer service and inventory holding levels are reviewed on a regular basis as part of the operational management of the business. The main aim of this measure is to ensure that the Company'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	2021
	£m	£m
Inventory	12.5	9.1

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.

# Churchill China (UK) Limited

## Strategic report for the year ended 31 December 2022 (continued)

### Future outlook (continued)

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

Approved by the Board and signed on its behalf:



D M O'Connor

Director

**28 September 2023**

# Churchill China (UK) Limited

## Directors' report for the year ended 31 December 2022

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2022.

A review of the operations and future prospects of the Company is given in the Strategic Report, starting on page 4.

### Dividend and transfers to reserves

The company paid a dividend of £3,000,000 (2021: £nil). The directors propose a dividend £3,500,000 has been proposed.

### International Financial Reporting Standards

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS101).

### Directors

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

D M O'Connor  
D J S Taylor (Resigned 12 April 2023)  
P G Scragg  
S R Brown  
J A Roper  
S Heap  
M T Sinclair (Appointed 24 March 2023)  
M Cunningham (Appointed 8 June 2023)

### Taxation

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

### Environmental, Social and Governance

This 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 within the Strategic Report. The following information is given in addition to these disclosures.

### Ethical standards and trading

The Company 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.

# Churchill China (UK) Limited

## Directors' report for the year ended 31 December 2022 (continued)

### Employees

The Company recognises 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 Company.* 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 initiatives 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 and encourages performance in line with value creation and allow them to share in the Company'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.

# Churchill China (UK) Limited

## Directors' report for the year ended 31 December 2022 (continued)

### 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, social and community

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

Whilst the Company manufactures a product which may be re-used many thousands of times, a significant amount of energy is consumed in its production. 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 products 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 company.

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

# **Churchill China (UK) Limited**

## **Directors' report for the year ended 31 December 2022 (continued)**

### **Research and development**

The introduction of new and innovative products, designs and process technology remains a cornerstone of our future strategy. The Company'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 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.

### **Directors' indemnities**

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

### **Financing**

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

If additional financing is needed in the short term, the Company has access to short term variable rate financing arrangements on an unsecured basis to provide finance for working capital requirements should they be required. The Company currently has no net debt and there are no assets currently subject to security. Larger long term funding requirements may be met from debt and equity sources if this is required.

The Company 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 Company's budgetary and strategic planning processes.

### **Financial instruments**

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

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

The Company 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.

### **Political contributions**

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

### **Overseas operations**

The Company's principal operations are located within the United Kingdom, with a sales force based in Europe and also North America.

# Churchill China (UK) Limited

## Directors' report for the year ended 31 December 2022 (continued)

### 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, 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 company will continue in business.

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

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

### Going Concern

The Board confirms that, having made enquiries, the Directors have a reasonable expectation that the Company has 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 of higher levels of inflation, increasing energy costs and other potential impacts on the business environment. 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 Company 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.

### Statement on engagement with suppliers, customers and others in a business relationship with the company

Engagement with stakeholders is included within the Strategic Report.

By order of the Board and signed on its behalf:



D M O'Connor

Director

28 September 2023

## Churchill China (UK) Limited

### Income Statement for the year ended 31 December 2022

	Note	2022 £	2021 £
<b>Revenue</b>	2	<b>75,334,964</b>	55,604,689
<b>Operating profit before exceptional item</b>		<b>8,233,287</b>	5,933,548
Exceptional items	3	<b>13,143</b>	-
<b>Operating profit</b>	3	<b>8,246,430</b>	5,933,548
Interest receivable	6	<b>53,566</b>	4,601
Interest payable	6	<b>(38,680)</b>	(31,585)
Interest on defined benefit pension schemes	17	<b>(113,000)</b>	(136,000)
<b>Profit before taxation</b>		<b>8,148,316</b>	5,770,564
Income tax expense	7	<b>(1,583,495)</b>	(1,512,969)
<b>Profit for the financial year</b>		<b>6,564,821</b>	4,257,595

All of the above figures relate to continuing operations.

### Statement of comprehensive income for the year ended 31 December 2022

	2022 £	2021 £
Profit for the financial year	<b>6,564,821</b>	4,257,595
Items that will not be subsequently reclassified to profit or loss:		
Re-measurement of post-employment benefit obligations - net of tax	<b>9,332,000</b>	2,122,333
<b>Total comprehensive income for the year</b>	<b>15,896,821</b>	6,379,928

# Churchill China (UK) Limited

## Statement of financial position as at 31 December 2022

	Note	2022 £	2021 £
<b>Non current assets</b>			
Intangible assets	9	114,319	82,959
Property, plant and equipment	10	20,250,096	18,357,768
Deferred income tax assets	16	53,000	1,809,000
Retirement benefit asset	17	6,924,000	-
		27,341,415	20,249,727
<b>Current assets</b>			
Inventories	11	12,506,072	9,073,999
Trade and other receivables: current	12	14,445,092	10,420,184
Other financial assets	13	5,057,262	4,005,019
Cash at bank and in hand		7,430,431	13,365,741
		39,438,857	36,864,943
<b>Current liabilities</b>			
Trade and other payables	14	(12,905,944)	(11,569,478)
<b>Net current assets</b>		26,532,913	25,295,465
<b>Total assets less current liabilities</b>			
		53,874,328	45,545,192
Trade and other payables: non current	15	(2,750,812)	(2,569,497)
Deferred income tax liabilities	16	(3,846,000)	(1,439,000)
Retirement benefit obligations	17	-	(7,156,000)
<b>Net assets</b>		47,277,516	34,380,695
<b>Equity attributable to owners of the Company</b>			
Called up share capital	18	25,000	25,000
Other reserves	19	42,119	42,119
Retained earnings		47,210,397	34,313,576
<b>Total equity</b>		47,277,516	34,380,695

For the year ending 31<sup>st</sup> December 2022 the Company was entitled to exemption from audit under Section 479A of the Companies Act 2006 relating to subsidiary companies. The members have not required the Company to obtain and audit of its accounts for the year in question in accordance with Section 476. The Directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

The notes to the financial statements as detailed on pages 24 to 49 form part of the financial statements.

The financial statements on pages 21 to 49 were approved by the Board of Directors on 28 September 2023 and were signed on its behalf by:

D M O'Connor  
Director



Company Number: 00270153

## Churchill China (UK) Limited

### Statement of Changes in Equity for the year ended 31 December 2022

	Retained Earnings £	Called Up Share Capital £	Other Reserves £	Total Equity £
<b>Balance at 1 January 2021</b>	<b>27,933,648</b>	<b>25,000</b>	<b>42,119</b>	<b>28,000,767</b>
Comprehensive Income:				
Profit for the year	4,257,595	-	-	4,257,595
Other Comprehensive expense:				
Re-measurement of post-employment benefit obligations – net of tax	2,122,333	-	-	2,122,333
Total comprehensive income for the year	6,379,928	-	-	6,379,928
<b>Balance at 31 December 2021</b>	<b>34,313,576</b>	<b>25,000</b>	<b>42,119</b>	<b>34,380,695</b>
Comprehensive Income:				
Profit for the year	6,564,821	-	-	6,564,821
Other Comprehensive Income:				
Re-measurement of post-employment benefit obligations – net of tax	9,332,000	-	-	9,332,000
Total comprehensive income for the year	15,896,821	-	-	15,896,821
Transactions with owners:				
Dividends	(3,000,000)	-	-	(3,000,000)
<b>Balance at 31 December 2022</b>	<b>47,210,397</b>	<b>25,000</b>	<b>42,119</b>	<b>47,277,516</b>

# Churchill China (UK) Limited

## Notes to the financial statements for the year ended 31 December 2022

### 1 Principal accounting policies

The principal accounting policies applied in the preparation of these 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 Company has 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 of higher levels of inflation, increasing energy costs and other potential impacts on the business environment. 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 Company 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.

#### Changes in accounting policy and disclosures

##### New standards and interpretations not yet adopted

There are no other IFRS's or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

#### Basis of accounting

The financial statements of the Company have been prepared to the balance sheet date under Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS101). The financial statements have been prepared under the historical cost convention and derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed on page 29.

# Churchill China (UK) Limited

## Notes to the financial statements for the year ended 31 December 2022 (continued)

### 1 Principal accounting policies (continued)

#### Basis of accounting (continued)

In preparation of the financial statements, the Company has taken advantage of the exemptions as allowed under FRS 101 as follows:

- a) The requirements of IFRS 7 'Financial Instruments: Disclosures'
- b) The following requirements of IAS 1:
  - Paragraphs 10(d) and 111, exempting the Company from providing a cash flow statement and information;
  - Paragraph 16, exempting the Company from providing a statement of compliance with all IFRSs;
  - Paragraph 38A, exempting the Company from the requirement for a minimum of two of each primary statement and the related notes;
  - Paragraph 38B to D, exempting the Company from the requirement to present additional comparative information; and
  - Paragraphs 134 to 136, exempting the Company from presenting Capital Management disclosures.
- c) The requirements of IAS 7 'Statement of Cash Flows', exempting the Company from preparing a cash flow statement
- d) The requirements of paragraph 17 of IAS 24 'Related Party Disclosures', exempting the Company from disclosing details of all key management compensation.
- e) The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions with wholly-owned members of the Group.
- f) The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' exempting the company from disclosing the impact of new accounting standards that have been issued but are not yet effective.

#### Revenue

Revenue and a corresponding receivable is recognised when the goods are delivered, since this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. 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 company's obligation to replace faulty products under the quality and edge chip warranty terms is recognised in other creditors.

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.

# Churchill China (UK) Limited

## Notes to the financial statements for the year ended 31 December 2022 (continued)

### 1 Principal accounting policies (continued)

#### Operating profit and exceptional items

Operating profit is stated both before and after the effect of exceptional items but before finance income, finance costs and taxation.

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

#### 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 Company's business.

#### Retirement benefit costs

The company 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 Company and are measured at fair value. The accrual of further benefits under the scheme ceased on 31 March 2006.

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

A net interest cost on defined benefit plans is included with 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.

Re-measurements 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 Company during the year and are charged to the income statement as they fall due.

#### Foreign currencies

Foreign currency transactions are translated into sterling 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.

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

# Churchill China (UK) Limited

## Notes to the financial statements for the year ended 31 December 2022 (continued)

### 1 Principal accounting policies (continued)

#### Financial instruments

The Company's operations expose it to the financial risks of changes in exchange rates. The Company uses forward currency contracts to mitigate this exposure. The Company 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 Company'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 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 Company'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 maybe 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 less accumulated depreciation.

Depreciation is calculated so as to write off the cost, less any provision for impairment, of property, plant 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 straight-line basis
Plant and machinery	10 - 25 on straight-line basis
Motor vehicles	25 on reducing net book value
Fixtures and fittings	25 - 33 on straight-line basis

Freehold land and assets in the course of construction are not depreciated.

Right of use assets are depreciated in accordance with 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 carrying amount is greater than its estimated recoverable amount.

# Churchill China (UK) Limited

## Notes to the financial statements for the year ended 31 December 2022 (continued)

### 1 Principal accounting policies (continued)

#### 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 straight line basis

The company has no 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 Company tests for impairment by estimating the recoverable amount of the asset. If the recoverable amount is less than the carrying value of an asset, an impairment loss is required. In addition to this, assets with indefinite lives are tested for impairment at least annually. The recoverable amount is measured as the higher of net realisable value or value in use. Non financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### Inventories

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

#### Available for sale financial assets

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

At each reporting date the Directors assess whether there is an indication an asset may be impaired. If any such indicator exists the Company tests for impairment by estimating the recoverable amount of the asset. If the recoverable amount is less than the carrying value of an asset an impairment loss is required.

#### Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A large proportion of the Company's outstanding Trade Receivables are covered by credit insurance. The Company 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.

# Churchill China (UK) Limited

## Notes to the financial statements for the year ended 31 December 2022 (continued)

### 1 Principal accounting policies (continued)

#### Cash and cash equivalents

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

#### Non current assets held for sale

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

#### Provisions

Provisions are recognised when (i) the company 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.

#### Cash flow

The Company is a wholly owned subsidiary of Churchill China plc and the cash flows of the Company are included in the consolidated Company cash flow statement of Churchill China plc. Consequently, the Company has taken the exemption conferred under the terms of FRS 101 from publishing a cash flow statement.

#### Related party transactions

The Company is a wholly owned subsidiary of Churchill China plc. The Company has therefore taken the exemption from disclosing transactions with fellow wholly owned subsidiaries and investors of the Company under the terms of IAS 24 'Related party disclosures'.

#### 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 Company 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:

# Churchill China (UK) Limited

## Notes to the financial statements for the year ended 31 December 2022 (continued)

### Key sources of estimation uncertainty (continued)

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

The Company 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).

#### (b) Pension benefits:

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

The Company 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 Company considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 17.

### Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

#### (a) Going Concern

The Company has considered alternative scenarios in relation to the impact of higher levels of inflation, increasing energy costs and other potential impacts on the business environment. 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 Company 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.

# Churchill China (UK) Limited

## Notes to the financial statements for the year ended 31 December 2022 (continued)

### 2 Revenue

The geographical analysis of turnover by destination is below (materially all turnover and profit before income tax and net assets originate in the UK):

	2022	2021
	£	£
<b>Geographical segment</b>		
United Kingdom	26,050,783	19,189,920
Rest of Europe	31,887,885	24,240,896
North America	8,715,216	6,388,359
Other	8,681,080	5,785,514
	<b>75,334,964</b>	<b>55,604,689</b>

### 3 Operating profit

	2022	2021
	£	£
Operating profit is stated after charging:		
Changes in finished goods and work in progress	(3,159,024)	2,923,664
Raw materials	6,137,231	4,319,744
Purchase of goods for resale	5,274,273	2,204,959
Staff costs – before exceptional costs (note 5)	25,283,428	20,128,186
Other external charges	31,052,924	17,687,027
Depreciation and amortisation charges	2,248,608	2,133,427
Foreign exchange gain	49,894	88,030
Profit on disposal of property, plant and equipment	(3,657)	(4,896)
Auditors' remuneration for audit	218,000	191,000
Other external income – exceptional	(453,120)	-
Employee benefit expense – exceptional (note 5)	439,977	-
<b>Total cost of sales, distribution costs and administrative expenses</b>	<b>67,088,534</b>	<b>49,671,141</b>

## Churchill China (UK) Limited

### Notes to the financial statements for the year ended 31 December 2022 (continued)

#### 3 Operating profit (continued)

Exceptional income of £453,120 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 companies core market. Related to this receipt, the Company has recognised exceptional costs totalling £439,977 to support 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 £13,143.

#### 4 Directors' emoluments

	2022	2021
	£	£
Aggregate emoluments	<b>1,763,618</b>	1,927,612
Company contributions to defined contribution pension scheme	<b>25,983</b>	26,349
	<b>1,789,601</b>	1,953,961

Retirement benefits during the year accrued to three directors (2021: three) under the Group defined benefit pension scheme and six directors (2021: six) under defined contribution schemes.

Fees and other emoluments paid to the highest paid director were:

	2022	2021
	£	£
Aggregate emoluments excluding defined contribution pension contributions	<b>542,525</b>	<b>605,066</b>

# Churchill China (UK) Limited

## Notes to the financial statements for the year ended 31 December 2022 (continued)

### 5 Employee information

The average monthly number of persons (including executive directors) employed by the Company during the year was:

	2022	2021
	Number	Number
<b>By activity</b>		
Production and warehousing	536	391
Sales and administration	206	192
	<b>742</b>	<b>583</b>
	2022	2021
	£	£
Staff costs (including the executive directors)		
Wages and salaries	21,947,409	17,546,110
Social security costs	2,344,276	1,683,672
Defined contribution pension cost (note 17)	830,380	608,672
Other pension costs	161,363	289,732
	<b>25,283,428</b>	<b>20,128,186</b>
Exceptional – Employee cost of living support	439,977	-
Total employee benefit expense	<b>25,723,405</b>	<b>20,128,186</b>

## Churchill China (UK) Limited

### Notes to the financial statements for the year ended 31 December 2022 (continued)

#### 6 Net interest receivable

	2022	2021
	£	£
Interest receivable on cash balances	<b>53,566</b>	4,601
Interest payable	<b>(23,126)</b>	(18,755)
Interest payable to Group companies	<b>(15,554)</b>	(12,830)
Interest payable	<b>(38,680)</b>	(31,585)
Net finance income/(cost)	<b>14,886</b>	(26,984)

#### 7 Income tax expense

	2022	2021
	£	£
<b>Current tax:</b>		
United Kingdom corporation tax charge on profits of the year	<b>484,754</b>	493,218
United Kingdom corporation tax effect of exceptional charges	<b>2,497</b>	-
Adjustments in respect of prior years	<b>44,244</b>	11,751
Total current tax	<b>531,495</b>	504,969
Origination and reversal of temporary differences	<b>1,052,000</b>	1,008,000
Total deferred tax	<b>1,052,000</b>	1,008,000
Tax on profit on ordinary activities	<b>1,583,495</b>	1,512,969

The weighted average applicable tax rate was 19% (2021: 19%).

During the year a charge of £3,111,000 (2021: credit of £122,000) in relation to deferred tax arising from actuarial gains and losses on the Company's defined benefit pension obligation was adjusted directly within equity.

Following the announcement of the UK's Government's intention to increase Corporation Tax rates from 19% to 25% with effect from 2023, deferred tax balances have been provided at a rate of 25%.

# Churchill China (UK) Limited

## Notes to the financial statements for the year ended 31 December 2022 (continued)

### 7 Income tax expense (continued)

The tax assessed for the year is higher than the standard rate of corporation tax (2021: higher than the standard rate of tax) in the UK 19% (2021: 19%). The differences are explained below:

	2022	2021
	£	£
<b>Profit before income tax</b>	<b>8,148,316</b>	5,770,564
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2021: 19%)	<b>1,548,180</b>	1,096,407
Effects of:		
Expenses not deductible for tax purposes	<b>112,381</b>	35,833
Difference between pension charge and cash contributions	<b>(311,000)</b>	(233,000)
Adjustments in respect of prior years	<b>44,244</b>	16,214
Change in rate of deferred tax balances	-	501,000
Other	<b>189,690</b>	96,515
<b>Total tax</b>	<b>1,583,495</b>	1,512,969

### 8 Dividends

Dividends paid during the year were £3,000,000 (2021: £nil).

The directors now recommend payment of the following dividend:

	2022	2021
	£	£
Final dividend 2022 - £140.00 per ordinary share	<b>3,500,000</b>	3,000,000

## Churchill China (UK) Limited

### Notes to the financial statements for the year ended 31 December 2022 (continued)

#### 9 Intangible assets

	Computer software £
<b>Cost</b>	
At 1 January 2022	1,260,015
Additions	91,469
<b>At 31 December 2022</b>	<b>1,351,484</b>
<b>Accumulated amortisation</b>	
At 1 January 2022	1,177,056
Amortisation	60,109
<b>At 31 December 2022</b>	<b>1,237,165</b>
<b>Net book amount</b>	
<b>At 31 December 2022</b>	<b>114,319</b>
At 31 December 2021	82,959

## Churchill China (UK) Limited

### Notes to the financial statements for the year ended 31 December 2022 (continued)

#### 10 Property, plant and equipment

	Freehold land and buildings	Plant and Machinery	Motor vehicles	Fixtures and fittings	Total
	£	£	£	£	£
At 31 December 2021					
Cost	15,227,829	31,148,612	672,975	2,592,510	49,641,926
Accumulated depreciation	(4,286,512)	(24,374,707)	(367,686)	(2,255,253)	(31,284,158)
<b>Net book amount</b>	<b>10,941,317</b>	<b>6,773,905</b>	<b>305,289</b>	<b>337,257</b>	<b>18,357,768</b>
Year ended 31 December 2022					
Additions	401,987	3,431,996	171,766	80,827	4,086,576
Disposals	-	-	(5,749)	-	(5,749)
Depreciation	(328,175)	(1,560,569)	(114,611)	(185,144)	(2,188,499)
<b>Closing net book amount</b>	<b>11,015,129</b>	<b>8,645,332</b>	<b>356,695</b>	<b>232,940</b>	<b>20,250,096</b>
At 31 December 2022					
Cost	15,395,441	34,580,608	805,747	2,673,337	53,455,133
Accumulated depreciation	(4,380,312)	(25,935,276)	(449,052)	(2,440,397)	(33,205,037)
<b>Net book amount</b>	<b>11,015,129</b>	<b>8,645,332</b>	<b>356,695</b>	<b>232,940</b>	<b>20,250,096</b>

Included within Fixed Assets are assets recognised as Right of Use Assets with a net book value of £600,511 (2021: £310,501) in accordance with IFRS 16 Leasing. See Note 20 Leases for further information.

There is no depreciation charged against Land of £1,828,575 (2021: £1,828,575)

# Churchill China (UK) Limited

## Notes to the financial statements for the year ended 31 December 2022 (continued)

### 11 Inventories

	2022	2021
	£	£
Raw materials and consumables	371,185	98,136
Work in progress	1,281,196	1,104,471
Finished goods and goods for resale	10,853,691	7,871,392
	<b>12,506,072</b>	<b>9,073,999</b>

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 £42,680,000 (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 of £129,150 (2021: decrease of £686,695).

There is no significant difference between the replacement cost of work in progress and finished goods and goods for resale and their carrying amounts. Inventories are stated after provisions for impairment of £1,900,812 (2021: £1,771,662).

### 12 Trade and other receivables

	2022	2021
	£	£
<b>Current:</b>		
Trade receivables	11,916,735	9,642,588
Less: provision of impairment of trade receivables	(326,264)	(196,197)
Trade receivables - net	11,590,471	9,446,391
Other receivables	1,811,483	280,899
Corporation tax	802,709	295,853
Prepayments and accrued income	240,429	397,041
	<b>14,445,092</b>	<b>10,420,184</b>

## Churchill China (UK) Limited

### Notes to the financial statements for the year ended 31 December 2022 (continued)

#### 13 Other financial assets

	2022	2021
	£	£
Other receivables	5,057,262	4,005,019

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

#### 14 Creditors: amounts falling due within one year

	2022	2021
	£	£
Trade creditors	3,333,932	3,337,822
Amounts owed to Group undertakings	657,154	542,037
Other taxation and social security	347,992	572,695
Lease liabilities	198,533	148,214
Other creditors	7,752,592	6,289,899
Accruals and deferred income	615,741	678,811
	<b>12,905,944</b>	<b>11,569,478</b>

All of the Group undertakings are unsecured, and repayable on demand.

#### 15 Creditors: amounts falling due after more than one year

	2022	2021
	£	£
Amounts owed to parent company	1,970,366	2,033,280
Amounts owed to Group undertakings	367,225	367,225
Lease liabilities	413,221	168,992
	<b>2,750,812</b>	<b>2,569,497</b>

The amounts owed to parent company and Group undertakings are unsecured and have no fixed terms of repayment except that they are not due within one year.

Further analysis relating to the Lease liabilities acquired is included in Note 20.

## Churchill China (UK) Limited

### Notes to the financial statements for the year ended 31 December 2022 (continued)

#### 16 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
	£	£
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	-	1,468,000
- Deferred tax asset to be recovered within 12 months	53,000	341,000
	<b>53,000</b>	<b>1,809,000</b>
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	<b>(3,795,000)</b>	(1,136,000)
- Deferred tax liabilities to be recovered within 12 months	<b>(51,000)</b>	(303,000)
	<b>(3,846,000)</b>	<b>(1,439,000)</b>
Deferred tax asset (net)	<b>(3,793,000)</b>	370,000

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

	2022	2021
	£	£
At 1 January	370,000	1,256,000
Income statement charge (note 7)	<b>(1,052,000)</b>	(1,008,000)
Tax credited directly to equity	<b>(3,111,000)</b>	122,000
<b>At 31 December</b>	<b>(3,793,000)</b>	370,000

## Churchill China (UK) Limited

### Notes to the financial statements for the year ended 31 December 2022 (continued)

#### 16 Deferred Income Tax (continued)

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:

	Retirement benefit obligation	Accelerated capital allowances	Total
	£	£	£
<b>Deferred tax liabilities</b>			
At 1 January 2021	-	732,000	732,000
Debited to the income statement	-	707,000	707,000
At 31 December 2021	-	1,439,000	1,439,000
Debited to the income statement	-	676,000	676,000
Reclassification from assets	1,731,000	-	1,731,000
<b>At 31 December 2022</b>	<b>1,731,000</b>	<b>2,115,000</b>	<b>3,846,000</b>

	Retirement benefit obligation	Other	Total
	£	£	£
<b>Deferred tax assets</b>			
At 1 January 2021	1,973,000	15,000	1,988,000
Charged/(credited) to the income statement	(306,000)	5,000	(301,000)
Tax credits relating to components of comprehensive income	122,000	-	122,000
At 31 December 2021	1,789,000	20,000	1,809,000
Charged/(credited) to the income statement	(409,000)	33,000	(376,000)
Tax credits relating to components of comprehensive income	(3,111,000)	-	(3,111,000)
Reclassification to liabilities	1,731,000	-	1,731,000
<b>At 31 December 2022</b>	<b>-</b>	<b>53,000</b>	<b>53,000</b>

# Churchill China (UK) Limited

## Notes to the financial statements for the year ended 31 December 2022 (continued)

### 16 Deferred Income Tax (continued)

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

	2022	2021
	£	£
Fair value reserves in shareholders' equity:		
Tax on re-measurement of defined pension benefits	3,111,000	(122,000)
	<b>3,111,000</b>	<b>(122,000)</b>

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 Company has not recognised deferred income tax assets of £1,237,000 (2021: £1,237,000) in respect of capital losses amounting to £5,092,000 (2021: £5,092,000) that can be carried forward against future capital gains.

Deferred tax assets of £20,000 (2021: £20,000) are recognised relating to short term timing differences.

#### Deferred tax provision

A deferred taxation liability in respect of the 1992 revaluation of Marlborough Pottery of £275,000 (2021: £275,000) has not been provided for as there is no present intention to dispose of the revalued property, therefore such liability is unlikely to crystallise. Any liability would also be matched by capital losses available within the Company.

### 17 Retirement benefit obligations

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

Scheme	2022	2021	Nature
Churchill Group Retirement Benefit Scheme	-	-	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	<b>£830,380</b>	£608,672	Defined Contribution (Master Trust)
Other	<b>£161,363</b>	£289,732	Other pension costs
Total	<b>£991,743</b>	£898,404	Defined Contribution Schemes

The assets of the schemes are held separately from those of the Company. The total pension cost for the Company was £991,743 (2021: £898,404). Of this, £830,380 (2021: £608,672) relates to the Defined Contribution Schemes, £nil (2021: £nil) relates to the Defined Benefit Scheme, and £161,363 (2021: £289,732) of other pension costs including benefits linked to the pension scheme.

# Churchill China (UK) Limited

## Notes to the financial statements for the year ended 31 December 2022 (continued)

### 17 Retirement benefit obligations (continued)

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 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.

The Board of Trustees of the Churchill Group Retirement Benefit Scheme 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.

The deficit in the Scheme is a liability of the Company as Scheme employer and the deficit amortisation payments aimed at removing this deficit may vary dependant on the changes in the assumptions underlying the calculation of liabilities and actual experience. The Company takes into account the level of present and future payments into the Scheme along with capital expenditure and other investments when considering the allocation of available cashflow.

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

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

#### Reconciliation of scheme assets and liabilities

	Assets	Liabilities	Total
	£	£	£
At 1 January 2021	<b>51,065,000</b>	<b>(61,447,000)</b>	<b>(10,382,000)</b>
Benefits paid	(1,456,000)	1,456,000	-
Employer contributions	1,362,000	-	1,362,000
Expected return on plan assets/(interest cost)	714,000	(850,000)	(136,000)
Re-measurement gains/ (losses)	2,166,000	(166,000)	2,000,000
<b>At 31 December 2021</b>	<b>53,851,000</b>	<b>(61,007,000)</b>	<b>(7,156,000)</b>

## Churchill China (UK) Limited

### Notes to the financial statements for the year ended 31 December 2022 (continued)

#### 17 Retirement benefit obligations (continued)

	Assets	Liabilities	Total
	£	£	£
At 1 January 2022	53,851,000	(61,007,000)	(7,156,000)
Benefits paid	(1,331,000)	1,331,000	-
Employer contributions	1,750,000	-	1,750,000
Expected return on plan assets/(interest cost)	973,000	(1,086,000)	(113,000)
Re-measurement gains/ (losses)	(8,619,000)	21,062,000	12,443,000
<b>At 31 December 2022</b>	<b>46,624,000</b>	<b>(39,700,000)</b>	<b>6,924,000</b>

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

The assets of the scheme and the expected rate of return and liabilities of the scheme at 31 December were:

	Value 31 December 2022	Value 31 December 2021
	£	£
Equity Investment Funds	12,358,000	27,112,000
Absolute Return Funds	2,270,000	9,140,000
Debt Investments	27,523,000	12,741,000
Other	1,316,000	1,304,000
Cash and Cash Equivalents	3,157,000	3,554,000
Market value of scheme assets	46,624,000	53,851,000
Present value of scheme liabilities	(39,700,000)	(61,007,000)
<b>Net pension asset/(liability)</b>	<b>6,924,000</b>	<b>(7,156,000)</b>

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

# Churchill China (UK) Limited

## Notes to the financial statements for the year ended 31 December 2022 (continued)

### 17 Retirement benefit obligations (continued)

An analysis of the amount which has been charged to profit that relates to the DB scheme as follows:

	2022	2021
	£	£
Interest cost on defined benefit plans	113,000	136,000
Total charged to profit	113,000	136,000

#### Re-measurement gains and losses

Re-measurement gains of £12,443,000 (2021: gains of £2,000,000) gross of tax were recognised in the Statement of Comprehensive Income during the year. The cumulative amount of actuarial losses recognised in the Statement of Comprehensive Income is £9,237,000 (2021: £21,680,000).

The principal actuarial assumptions used were as follows:

	2022	2021
	% per annum	% per annum
Discount rate	4.9	1.8
Inflation rate - RPI	3.2	3.4
Inflation rate - 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	2021
	Number	Number
Male	20.8	20.7
Female	22.6	22.5

# Churchill China (UK) Limited

## Notes to the financial statements for the year ended 31 December 2022 (continued)

### 17 Retirement benefit obligations (continued)

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

	2022	2021
	Number	Number
Male	22.1	22.0
Female	24.1	24.0

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.

A detailed assessment of the retirement benefit obligation risks can be found in the Churchill China Plc Annual Report – note 20.

#### Sensitivity

A sensitivity analysis has been carried out on the 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 the CPI inflation to 3.05% would be to 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 dependant on the valuation and investment performance of scheme assets.

### 18 Share Capital

	2022	2021
	£	£
<b>Allotted and fully paid</b>		
25,000 (2021: 25,000) ordinary shares of £1 each	25,000	25,000

### 19 Other reserves

	Debenture redemption reserve	Capital redemption reserve	Total
	£	£	£
At 31 December 2021 and 31 December 2022	12,119	30,000	42,119

# Churchill China (UK) Limited

## Notes to the financial statements for the year ended 31 December 2022 (continued)

### 20 Leases

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

	<b>2022</b>	2021
	<b>£'000</b>	£'000
Right of Use assets: Net Book Value		
Land and Buildings	<b>290,907</b>	25,571
Plant & Equipment	<b>77,173</b>	152,663
Motor Vehicles	<b>232,431</b>	132,267
<b>Total</b>	<b>600,511</b>	310,501

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

	<b>2022</b>	2021
	<b>£'000</b>	£'000
Depreciation charge on Right of Use Assets		
Land and Buildings	<b>67,586</b>	69,603
Plant & Equipment	<b>75,490</b>	52,630
Motor Vehicles	<b>71,598</b>	38,897
<b>Total</b>	<b>214,674</b>	161,130

## Churchill China (UK) Limited

### Notes to the financial statements for the year ended 31 December 2022 (continued)

#### 20 Leases (continued)

Lease Liability	Land and Buildings	Plant & Equipment	Motor Vehicles	Total
Opening at 1 January 2021	107,379	88,118	78,894	274,391
Additions	-	117,562	93,485	211,047
Payments	(84,730)	(54,346)	(40,861)	(179,937)
Interest	6,698	2,360	2,647	11,705
<b>At 31 December 2021</b>	<b>29,347</b>	<b>153,694</b>	<b>134,165</b>	<b>317,206</b>
Opening at 1 January 2022	29,347	153,694	134,165	317,206
Additions	332,923	-	171,761	504,684
Payments	(82,944)	(77,738)	(74,860)	(235,542)
Interest	19,725	2,386	3,295	25,406
<b>At 31 December 2022</b>	<b>299,051</b>	<b>78,342</b>	<b>234,361</b>	<b>611,754</b>

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	337,108	156,597
Between 1 and 5 years	457,305	280,548
<b>Total</b>	<b>794,413</b>	<b>437,145</b>

The total cash outflow for Leases in the year was £235,061 (2021: £176,807).

# Churchill China (UK) Limited

## Notes to the financial statements for the year ended 31 December 2022 (continued)

### 21 Capital commitments

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

	2022	2021
	£	£
Property, plant and equipment	507,108	1,981,364
Intangible assets: Computer software	-	11,098
	<b>507,108</b>	<b>1,992,462</b>

### 22 Ultimate parent company and controlling party

The Directors regard Churchill China plc, a Company registered in England and Wales, as the ultimate parent Company and the ultimate controlling party. Churchill China plc is also the parent undertaking of the smallest and largest Company to consolidate these financial statements. According to the register kept by the Company, Churchill China plc has a 100% interest in the ordinary share capital of Churchill China (UK) Limited at 31 December 2022. Copies of the parent company's consolidated financial statements may be obtained from the Company Secretary at the registered office on page 3.