



Annual Report
2006

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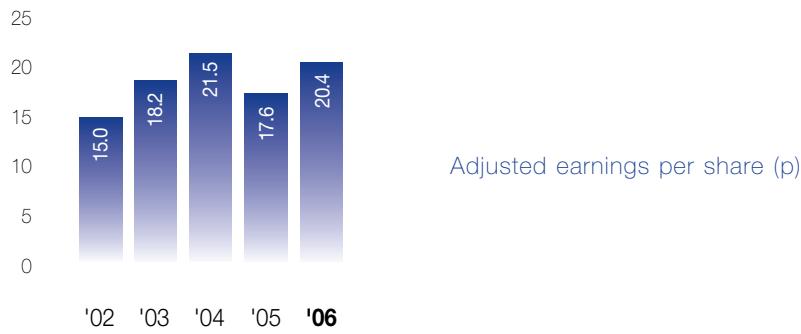
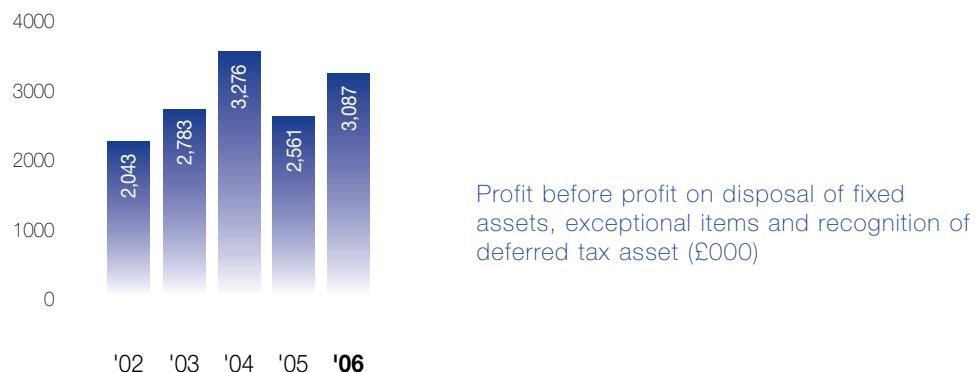
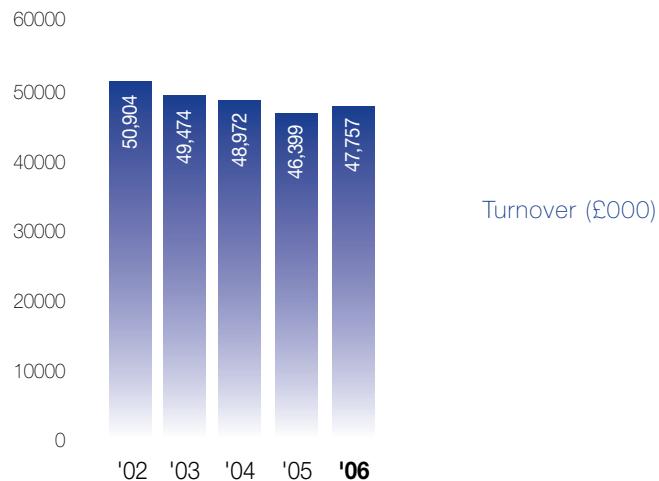


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Financial Highlights

	Before exceptional items	Exceptional items	Total	Before exceptional items as restated (note 28) 2005	Exceptional items	Total as restated (note 28) 2005
	2006	2006	2006	£'000	£'000	£'000
	£'000	£'000	£'000	£'000	£'000	£'000
Results						
Turnover - continuing operations	47,757	—	47,757	46,399	—	46,399
Operating profit - continuing operations	2,777	784	3,561	2,696	—	2,696
Share of operating profit/(loss) of associate net of impairment	5	—	5	(21)	—	(21)
Net interest receivable	241	—	241	75	—	75
Other financing income/(costs)	64	—	64	(189)	—	(189)
Profit on ordinary activities before profit on disposal of fixed assets	3,087	784	3,871	2,561	—	2,561
Profit on disposal of fixed assets	—	1,876	1,876	—	269	269
Profit on ordinary activities before taxation	3,087	2,660	5,747	2,561	269	2,830
Dividends paid			1,217			1,194
Key Ratios						
Operating margin before exceptional items			5.8%			5.8%
Operating margin after exceptional items			7.5%			5.8%
Basic earnings per share			37.6p			24.7p
Adjusted earnings per share			20.4p			17.6p
Diluted basic earnings per share			37.5p			24.6p
Diluted adjusted earnings per share			20.3p			17.5p
Dividends paid per share			11.2p			11.0p

5 Year Performance



Company Profile

Churchill China plc
Directors, secretary and advisers

EXECUTIVE DIRECTORS

A D Roper
D J S Taylor
D M O'Connor
R N Grundy
I T Hicks

SOLICITORS

Addleshaw Goddard
100 Barbirolli Square
Manchester
M2 3AB

NON-EXECUTIVE DIRECTORS

E S Roper (Chairman)* •
R S Kettel* •
J N E Sparey* •

STOCKBROKERS AND ADVISERS

Brewin Dolphin Securities
Edmund House
12-22 Newhall Street
Birmingham
B3 3DB

SECRETARY

AND REGISTERED OFFICE

D J S Taylor ACA
Marlborough Pottery
High Street
Tunstall
Stoke-on-Trent
Staffordshire
ST6 5NZ

BANKERS

Lloyds TSB plc
41 Market Street
Longton
Stoke-on-Trent
Staffordshire
ST3 1BN

AUDITORS

PricewaterhouseCoopers LLP
Cornwall Court
Cornwall Street
Birmingham
B3 2DT

REGISTRARS

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

* Member of audit committee

• Member of remuneration committee

Registered no: 2709505

page

“ We consolidated our market leadership position, making good progress in a range of new market sectors.”



Chairman's Statement



“ Our strong financial position and confidence in our core profitability will enable us to implement a number of development initiatives. We are reviewing a number of options for growth”

Group turnover for the year was £47.8m (2005: £46.4m) and profit before taxation and exceptional items £3.1m (2005: £2.6m). Group profit before taxation was £5.7m (2005: £2.8m). Operating cash generation before additional pension contributions was also strong at £5.7m (2005: £5.4m).

Sales to Hospitality customers, recovered strongly from a restrained first half to finish the year at figure of £27.4m (2005: £26.6m). Good progress was made within UK national accounts, the US market and in the Middle East. The Alchemy range continues to prosper with significant year on year growth. Vitrified sales were more restrained although new product launches have been well received.

It is pleasing to report a growth in Retail sales to £20.4m (2005: £19.8m) where we had expected to record lower sales following the move to direct shipment to customers. Whilst the increase has been achieved largely from lower margin promotional contracts it is especially gratifying given current retail market uncertainties.

Our strategy emphasising design, procurement and efficient order fulfilment has been well received by major retailers in the UK, US and other export markets.

Our cost base continued to be impacted by increases in energy prices, particularly in the fourth quarter. The completion of a number of projects has however enabled us to become more efficient within our operations, allowing us to offset some of the additional costs.

In the early part of the year we made significant progress in strengthening our balance sheet. The sale of the Alexander site at a premium to carrying value enabled us to make a further substantial contribution to our main defined benefit pension scheme. Alongside this a targeted reduction in inventory levels played a significant part in strong cash generation.

Financial Overview



In the year to 31 December 2006 Group sales were £47.8m (2005: £46.4m) and profit before exceptional items and taxation was £3.1m (2005: £2.6m). This increase continues the progress made in the second half of 2005. Profit after exceptional items but before taxation was £5.7m (2005: £2.8m).

Over the year the Group has generated strong operating cash flow of £5.7m (2005: £5.4m) before one off pension payments. This was achieved through a combination of improved profitability and disciplined working capital management, which led to a reduction in stock of £1.8m and consequent improvement in cash flow. There was little effect on overall cash balances from exceptional items as receipts from property disposals were matched by a one-off payment into the Group's defined benefit pension scheme. Nevertheless cash balances improved from £2.6m at the end of 2005 to a figure of £6.4m at 31 December 2006.

The results for the period include a number of exceptional items resulting in a net benefit to profit before taxation of £2.7m (2005: £0.3m). In January 2006 we disposed of the Alexander Pottery, Cobridge realising gross proceeds of the sale of £3.0m and an exceptional gain of £1.9m. Additionally, the cessation of future accrual to the Group's defined benefit pension scheme on 31 March 2006 led to a one off positive adjustment in relation to the curtailment of future benefits. This amount of £1.1m (2005: nil) has been treated as exceptional given its size. Conversely,

the consolidation of activities from our Whieldon Road site has necessitated a reduction in the carrying value of certain plant and machinery at that location, a charge of £0.3m has been made against profits

The additional contributions made into the Group's defined benefit scheme and the cessation of future accrual have significantly reduced the Group's liability in respect of its net pension deficit to £2.8m (2005: £6.5m). The Board now believes that the pension deficit is at a manageable level which for the foreseeable future may be addressed without significant additional funding.

Adjusted earnings per share were 20.4p (2005: 17.6p). Basic earnings per share were 37.6p (2005: 24.7p).

Dividend

The Board is pleased to announce that given the achievement of forecasts and the continued strong cash generation evident in the second half of the year it proposes an increased final dividend of 8.1p per ordinary share (2005: 7.3p). The total dividends declared in relation to the year will therefore increase to 12.0p per ordinary share (2005: 11.0p).

“Our Retail operation begins the year in its strongest position for some time”



“Alchemy sales grew substantially once again, demonstrating the inherent appeal of this product range to all markets and the continued success of our new product development programme”





Operating Review

Sales

Sales of Hospitality products were £27.4m (2005: £26.6m), with good growth in the second half of the year. Sales were up 3% on last year, a good performance given a flat first half. In the UK we consolidated our market leadership position, making good progress in a range of new market sectors. Overseas we have also seen significant growth in North American and Middle East markets, US sales improved by 40%. These gains reflect our long term investment in market development.

Alchemy sales grew substantially once again, demonstrating the inherent appeal of this product range to all markets and the continued success of our new product development programme. Sales of vitrified products declined slightly overall, although within this new product launches performed to expectations. Innovative product development remains the key to future growth and our

investment in this area increased during 2006. We intend to further extend our range of product in Vitrified, Alchemy and other areas in 2007.

Sales of Retail products at £20.4m (2005: £19.8m), generated a performance somewhat in excess of our expectations; this was flattered by additional promotional volumes generally at lower margins.

Our business model remains to offer a high quality design, procurement and fulfillment service to UK and export customers either through our UK operation or on a direct shipment basis. This strategy continues to win new business and we have extended the range of major retailers we service during the year.

Manufacturing and Operations

The continued programme of consolidation of manufacturing and warehousing operations to our Sandyford site has had a significant effect on mitigating the net cost of energy rises experienced in the year. New investment has also allowed us to support the production of innovative new products which are the lifeblood of our forward strategy and to improve the flexibility of our manufacturing operations. Increased energy prices have clearly had a negative effect on this years performance, but we expect that the rate of increase experienced in recent years will now moderate.

The year has benefited from cost and efficiency improvements related to our development of new warehousing, although the less tangible investment in demand forecasting systems and people has also realised substantial benefits.

Our Shanghai operation has become well established in the year and has made a substantial contribution to the improvements we have seen in procurement and customer service.

Board Changes

As announced in January, I will be retiring from the Board at the Annual General Meeting in May this year, and as such this will be my last Chairman's statement. Since joining the Group in 1960, it has been my pleasure to work alongside many talented and committed people, and I would like to take this opportunity to thank everyone involved with Churchill in making my time at the Company an extremely rewarding and fulfilling experience.

Jonathan Sparey, who joined Churchill in 2000 as a Non-Executive Director, will succeed me as Chairman. Jonathan is a senior partner in L.E.K Consulting LLP, a leading international corporate strategy firm, and I look forward to him continuing to provide strategic advice and direction for the Group in his new role as Chairman.



Prospects

We expect that the steady growth in revenue from our Hospitality business will continue as the investment we have made in new products and target market sectors worldwide generates a return. Our Retail operation begins the year in its strongest position for some time and our customers increasingly value the services we provide. We have not anticipated a recurrence of the promotional business which supported 2006's performance, but expect that our core business will continue to improve its contribution to Group profitability. New licenses from Disney and Sanderson will reinforce this progress.

Our strong financial position and confidence in Churchill's core profitability will enable us to implement key development initiatives. We are reviewing a number of options to accelerate growth across the markets we serve and will be making further investments in our operational base.

I am pleased to report that trading in the early months of 2007 has been encouraging and in line with our expectations.

**Stephen Roper
Chairman**

21 March 2007



Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2006.

Principal activities, operating and financial review

The consolidated profit and loss account for the year is set out on page 31.

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

A review of the operations of the Group during the year and its future prospects are given in the Chairman's Statement on page 5 and Business Review on page 13.

Dividends and transfers to reserves

The Directors have paid the following dividends in respect of the years ended 31 December 2006 and 31 December 2005:

	2006 £'000	2005 £'000
Ordinary dividend:		
Final dividend 2005 7.3p (2004: 7.3p) per 10p ordinary share	793	792
Interim dividend 2006 3.9p (2005: 3.7p) per 10p ordinary share	424	402
	<hr/>	<hr/>
	1,217	1,194
	<hr/>	<hr/>

After the payment of the above dividends, the profit for the financial year of £2,871,000 (2005: £1,484,000) will be transferred to the Group's reserves.

The Directors now recommend payment of the following dividend

	2006 £'000	2005 £'000
Ordinary dividend:		
Final dividend 2006 8.1p (2005: 7.3p) per 10p ordinary share	883	793
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Directors

The Directors of the Company who have served during the year and since the year then ended are as follows:

E S Roper*
A D Roper
D J S Taylor
D M O'Connor
R S Kettel *
J N E Sparey *
R N Grundy
I T Hicks (appointed 28 September 2006)
* Non executive

The Directors retiring by rotation are D J S Taylor and D M O'Connor who being eligible, offer themselves for re-election. The unexpired terms of the service contracts of D J S Taylor and D M O'Connor are twelve months. I T Hicks was appointed as a Director of the Company on 28 September 2006 and in accordance with the Company's articles, retires at the next Annual General Meeting. The unexpired term of I T Hicks' service contract is six months.

Directors *(continued)*

The biographical details of the Directors are as follows:

Stephen Roper, non executive Chairman, aged 64, has worked for Churchill in a number of sales and management roles since joining the company in 1960, latterly as Group Chief Executive from 1990 and as Executive Chairman in 1999. He was appointed non executive Chairman in 2003. He has extensive experience of sales and market development, particularly in relation to export markets.

Andrew Roper, Group Managing Director, aged 58, has worked for the Company since 1973. He is a qualified Chartered Accountant and has responsibility for the development of Group strategy and for operational performance and development. He was appointed to his present role in 1998.

David Taylor, Finance Director and Company Secretary, aged 47, has worked for the Group for 15 years. Following qualification as a Chartered Accountant with KPMG, he worked in a number of finance roles before joining Churchill in 1992. He was appointed to the Board in 1993.

Rodney Kettel, non executive Director, aged 63, was formerly a partner in PricewaterhouseCoopers, Chartered Accountants, Birmingham, and has extensive experience in advising listed companies. He joined the Board in 1999.

David O'Connor, Managing Director: Retail products, aged 50, has worked for Churchill for 16 years in a number of production, operations and marketing roles. He has extensive experience within the Ceramics industry and joined the Board in 1999.

Jonathan Sparey, non executive Director, aged 49, is a partner in L.E.K. Consulting, a leading international corporate strategy firm. He was previously a Director of the merchant bank Samuel Montagu and Co. He joined the Board in 2000.

Ralph Grundy, Managing Director: Hospitality products, aged 46, joined Churchill in 1998 and was appointed to the Board in 2000. He has worked in a number of senior sales and marketing roles, principally within the luxury and fast moving consumer goods sectors.

Iain Hicks, Sourcing Director, aged 37, has worked for the Group in a variety of roles since joining Churchill in 1992. He has led the development of the Group's sourcing operation since it was established in 1999 and was appointed to the Board in 2006.

Business review

Business environment

We operate in many different geographic markets serving hospitality and retail customers with a range of tabletop products. Whilst our principal exposure is to the UK market, where we generate over 60% of our gross revenue, we also enjoy significant sales to Europe and North America which respectively account for 18% and 14% of our turnover. Almost without exception all of these markets are subject to a high level of competitive pressure and our costs of operation require constant review and control.

It is a general characteristic of our markets that there has been increased consolidation amongst our customers. Customers for hospitality products, both in terms of our immediate customers within the distribution chain and end users, have tended to grow in size and in the proportion of the overall market they serve. Distribution channels for the household markets have moved towards bigger retailers as large chain operations expand their product ranges from food to include multiple product categories, including household goods.

Whilst total market size information is not easily available for our markets, we believe that there have been no significant changes in the overall size of our markets during the year.

Competitively, the abolition of EU quotas on ceramic tableware from Chinese suppliers in 2005 initially led to increased competition in the UK and Europe from import companies. This pressure has now stabilised somewhat although we anticipate that markets will continue to be competitive. Our UK manufacturing operations have also been subject to a number of cost pressures, principally driven by increased energy prices. We have responded to these cost rises through restructuring our operations and by reducing our usage of gas and electricity.

We believe that to succeed as a business we must remain agile and to anticipate and respond to these changes. Our business model cannot remain static and we must constantly review our business and amend our operations where necessary.

Directors' Report

(continued)

Strategy

The Group's strategy remains to generate improved shareholder returns through the provision of value to customers through excellence in design, quality and service. We aim to increase Group profitability principally through steady increments to sales and margins, but also in active control of our cost base. It is no longer sufficient simply to provide a value based offering, we must meet our customers expectations in key areas in order to remain their preferred supplier.

Design

It is a key strategic aim to design products that meet our end users requirements both in terms of performance, shape and surface design. Our target markets require product that is ascetically appealing whilst also being functional and robust.

We offer a broad range of product satisfying a range of design styles, product types and price points. Product lifecycles in certain parts of our business are shortening with the consequent requirement to reduce design and development lead times and increase flexibility. All our product, whether made in our own factories or sourced from third party manufacturers, is researched and designed within Churchill or in conjunction with experienced external designers. The ability to develop new products and ranges and to bring these to market is an important part of our success.

We have invested significant resource in new staff and flexible technology to increase our capability in this area.

We review our performance in relation to the new product development process and in the performance of new products and ranges after launch. We also try to ensure that we have a balanced design team and that are given sufficient freedom to anticipate market trends and requirements to allow them to innovate successful new products.

Quality

Historically, as a manufacturer, we measured our quality in relation to the effectiveness of our factories. However 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 performance in operation and in the systems which support the fulfilment of our contract with our customers.

In addition to the introduction of quality systems within manufacturing and operations, we have had to develop new working methods with third party suppliers to ensure that the product that our customer receives is as they expect. This includes the identification and review of potential suppliers, the periodic audit of established partners and the clarification of exact product specifications.

We measure quality through the review of customer feedback and active involvement with our customers after we have sold product to them.

Customer service

Customer service remains a key element of our strategy. The fulfilment of customer expectations is critical to the maintenance of good relationships. Most of our customers are repeat customers and as such we must ensure that they return to Churchill.

We have steadily developed our IT systems to forecast likely demand for products and to manage our stock holding to ensure that we meet ambitious on time, in full, delivery targets. In addition we have organised our production facilities to balance efficient production with flexible manufacture to ensure that we can respond quickly to unexpected demand levels. We aim to invest regularly in new production technology in order to meet changing demand levels and to develop our IT systems in this area. In the last three years we have invested £3m in new warehousing and logistics in order to efficiently meet our customers needs.

We assess our performance in this area principally by measurement of the degree to which we meet agreed order delivery schedules on time and in full. These targets are monitored on a regular basis.

Research and development

The introduction of new and innovative products and designs remains a cornerstone of our future strategy. The Group's aim is to continue to identify future market trends and then to design and develop products that meet these needs. A significant effort is made to develop our process technology to allow the introduction of more complex product designs. New product development is controlled through regular meetings and the success of new launches is reviewed in the short term against individual targets and over the longer term as a function of our strategy.

Future outlook

The Board believes that demand for hospitality products in developed markets will continue to increase as leisure related spending continues to grow. There has been a significant expansion in eating out in the UK to the extent that there are now over 300,000 individual foodservice outlets covering a wide range of commercial and institutional activities. The Group intends to continue to expand its leading UK position whilst investing in the development of export markets. The opportunities overseas may be divided into markets where hospitality is well established, but the Group has not achieved a reasonable market share and developmental markets where demand for hospitality products is likely to grow as local or regional economies develop. It is therefore believed that there will be significant opportunities for further and sustained growth in the medium and long term. Demand for retail products has been subject to a number of pressures in recent years. Overall volume demand in the Group's principal markets has remained steady, however the monetary value of the markets has reduced as price points have fallen, mainly due to overseas competition and changes in the structure of retail distribution channels. It is believed that these pressures are unlikely to abate in the short term although a degree of price stability does appear to be emerging and is expected to continue.

Principal risks and uncertainties

The Group's operations are subject to a number of risks. The key business risks affecting the Group are set out below:

Market change

The Group operates in dynamic markets where there have been significant recent changes to economic conditions, the major distribution channels within each market and the relative competitive position of suppliers to these markets. It is therefore important that the Group continues to review the markets in which it currently operates and wishes to develop to ensure that it continues to meet customer needs in an efficient and profitable manner.

The risk inherent in each market is offset by the relatively broad spread of our operations in geographic terms and by a widening portfolio of products to serve different segments of these markets. We are also actively developing new geographic markets.

Currency exposure

The Group's position as a worldwide provider of ceramic and related products means that our profitability will be subject to currency fluctuations related to export sales. Our policy is generally to offer our customers the ability to be invoiced in their local currency. Our non sterling receipts are principally denominated in US dollars and Euros. Against US dollar receipts we have a natural offset due to our overseas sourcing operations where the cost of purchase from our third party suppliers is generally denominated in US dollars.

We review and control our transactional foreign currency exposure regularly and take appropriate action to manage net exposures using simple option forward contracts. We do not as a matter of policy take longer term positions to cover economic foreign currency exposure in this area, but review currency rate changes as part of our pricing policy.

Cost competitiveness

Our markets have been subject to significant cost movements in recent years. We have responded by augmenting our UK production facilities with a wide range of third party suppliers who generally operate in lower cost environments. The spread of these suppliers gives us the ability to switch production to obtain the best balance of quality and price. As a major user of energy within our production process we have an exposure to changes in availability and price of gas and electricity.

Directors' Report

(continued)

Cost competitiveness (continued)

We have sought to control this risk through management of our overall energy consumption and through contractual arrangements to ensure that we maintain adequate supplies of power at a cost which enables us to operate.

Product compliance

We are exposed to risk in relation to our products meeting accepted safety standards within the markets we serve. Each major geographic market applies different standards and legal penalties may be considerable for non compliance.

We manage these risks principally through the monitoring of applicable standards, the testing of our product to ensure it meets these standards and sale in accordance with local regulations. We also, where practical, maintain appropriate external insurance.

Key Performance Indicators

Sales and sales growth

The absolute level of sales and sales growth are reviewed regularly through the year against previous year and target levels.

Sales 2006: £47.8m (2005: £46.4m)

Sales growth 2006: 3.0% (2005: -5.0%)

Overall sales levels have increased despite the anticipated impact of higher levels of direct sales to customers.

Customer service and stock

Customer service and stockholding levels are reviewed on a regular basis as part of the operational management of the Group's business. The main aim of this measure is to ensure that the Group's strong reputation for on time order fulfilment is maintained, consistent with the efficient operation of production and sourcing activities and the optimisation of working capital.

Stock 2006: £6.8m (2005: £8.6m)

The level of stock and work in progress has reduced during the year given management action to reduce certain levels of overstock, through the change in mix of business away from that supplied through UK warehouses and also as a result of further implementation of stock management systems.

Operating profit and profit before taxation before exceptional items

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

Operating profit before exceptional items 2006: £2.8m (2005: £2.7m)

Operating profit before tax and exceptional items increased as additional sales and contribution levels offset higher input prices principally in relation to energy.

The level of profit before tax and exceptional items are reviewed on a monthly basis against previous performance and target levels.

Profit before taxation and exceptional items 2006: £3.1m (2005: £2.6m)

Profit before tax and exceptional items increased in 2006 due to the increase in operating profit but also due to an increase in interest receipts arising from higher average cash balances and other financing income.

Operating cash generation

The Group believes that over an extended time period it is important to generate cash at an operating level equivalent to declared operating profit, before adjustment for exceptional items. 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 ensure that our shareholders receive an appropriate return and to meet taxation payments.

Operating profit before exceptional items 2006: £2.8m (2005: £2.7m)

Operating cash generation before additional pension contributions 2006: £5.7m (2005: £5.4m)

In both of the years under review operating cash generation was significantly in excess of operating profit, principally due to the reduction in stock holding levels achieved in those years.

Insurance of directors

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

Employees

Our employees are critical to the current and future success of our business, we continually monitor and review our human resource policies to ensure that we exceed statutory requirements and to ensure that we have a committed well motivated team. We regularly communicate with our employees through team briefs and Works Committee meetings informing and involving them in the business's objectives and strategy. We endeavour to maintain an open and constructive relationship with our employees' trade union representation and meet regularly with them to discuss developments within the business.

The Group remains actively committed to the training and development of all employees, working with local educational establishments, private providers and the Ceramic Industry Learning Network. The Group aims to deliver a programme of training to meet business and individual needs and goals.

Churchill China maintains a programme using Process Improvement Teams and masterclass techniques engaging employees in the development of new methods to improve quality, processes and performance. We are committed to Total Quality Management and aim to continue to improve and extend the skill base of our workforce encouraging multi-skilling across all business functions. Employees are actively encouraged to seek promotion within the business and wherever possible we promote from within. The Group runs a successful commercial graduate training programme to complement the development of our existing workforce.

The Group is fully committed to its equal opportunities employment policy offering equality in training, career development and promotion of all employees irrespective of gender, ethnic origin, age, nationality, marital status, religion, sexual orientation or disability.

We work to identify and minimise all Health and Safety risks in the business, providing a safe and healthy working environment for all our employees and visitors. Regular training through our Health and Safety department aims to ensure that our management team is up to date with all changes in policies and legislation and that all employees are regularly briefed and trained in those standards.

Environment

The Group monitors the impact of its business on the environment. In addition to the process of management of omissions from its operations, the Group has instituted actions to pro-actively address the levels of waste produced by the business and its consumption of energy. Specific programmes are in place to recover and recycle waste created by our manufacturing process and we are actively working with our customers and suppliers to reduce the levels of packaging associated with our products.

Directors' Report

(continued)

Financing

The Group currently uses short term variable rate financing arrangements to provide finance for working capital requirements. The Group also finances certain fixed assets using fixed rate finance leases (as set out at note 27).

Financial instruments

The Group uses 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. Net currency exposures are generally covered between three and six months forward at any point in time. The Group does not trade in financial instruments.

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

Substantial shareholdings

The Directors have been advised of the following individual interests, or Group of interests, other than those dealt with in the summary of Directors interests, held by persons acting together, which at 14 March 2007 exceeded 3% of the Company's issued share capital:

Shareholder	Number of ordinary shares	Percentage
Landfinance Limited	1,130,000	10.4%
S Baker	1,020,000	9.4%
J A Roper	1,020,000	9.4%
M J & G Roper	920,370	8.4%
Discretionary Unit Trust	500,000	4.6%
Henderson Global Investors	440,000	4.1%

Suppliers

The Group agrees terms and conditions covering its business with its suppliers at the time of each transaction or in advance. In normal circumstances payment is generally made in accordance with these terms, subject to suppliers meeting the agreed terms and conditions.

The Group's average creditor payment period at 31 December 2006 was 23 days (2005: 26 days). The Company has no trade creditors.

Political and charitable contributions

Contributions made by the Group during the year for political and charitable purposes were £nil (2005: £nil) and £3,640 (2005: £1,450) respectively. In addition to the above the Group regularly donates quantities of product to charitable causes. The estimated value of these donations in 2006 was £9,000 (2005: £9,000). The Group's policy in respect of charitable donations is to support local charities and institutions, particularly in relation to education and sport.

International Financial Reporting Standards

As a company listed on the Alternative Investment Market of the London Stock Exchange, International Financial Reporting Standards will apply to the Group's financial statements with effect from 1 January 2007. The Group has commenced a review and conversion process to meet these requirements. At present the principal impact identified from this review has been in respect of pension costs which are expected to be similar to the effects arising from the implementation of FRS 17 which has been adopted in the current financial statements (see note 21). No other major effects have currently been identified from this review process.

Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. The Directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to assume that the Company will continue in business.

The Directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgments and estimates have been made in preparing the financial statements for the year ended 31 December 2006 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Churchill China plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware. Relevant information is defined as "information needed by the Company's auditors in connection with preparing their report". Each Director has taken all the steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

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

D J S Taylor
Company Secretary

21 March 2007

Directors' Report

(continued)

Report of the Remuneration Committee

Remuneration policy

This section of the Report of the Remuneration Committee is not audited.

The terms of Reference for the Remuneration Committee are listed below:

- To determine on behalf of the Board and the Shareholders the Company's broad policy for Executive reward and the entire individual remuneration including terms of service for each of the Executive Directors (and as appropriate other nominated Senior Executives).
- In doing so, to give the Executive Directors appropriate encouragement to enhance Company performance and ensure that they are fairly but reasonably rewarded for their individual responsibilities, abilities and contribution.
- To report and account directly to the Shareholders, on behalf of the Board, for their decisions.

At the same time the Remuneration Committee issued a policy statement which is endorsed by the Board. In determining its policy the Committee has given full consideration to Section B of the best practices provisions annexed to the Listing Rules of the London Stock Exchange. The two elements of this statement are:

- Total rewards to Executive Directors are intended to provide a comprehensive benefit package which both attracts and motivates individuals of calibre and experience to achieve continuous improvement in shareholder benefits (whilst at all times maintaining the highest levels of integrity). Reflecting individual responsibilities, abilities, expertise and preferences, a balance is sought between guaranteed income through salary and pension with incentives aligned to measurable criteria to cover both short and longer term periods.

Total rewards will be set with acknowledgement of comparable rewards in industry-related public companies and those of similar scale and also with sensitivity to subordinate staff within the Company with whom the packages will as far as possible be consistent and fair.

The Remuneration Committee is composed of R S Kettel, who acts as Chairman, E S Roper and J N E Sparey, all of whom are non executive Directors.

During the year the following provided advice which materially assisted the Remuneration Committee; A D Roper (Group Managing Director) and A M Basnett (HR Director, Churchill China (UK) Limited).

Directors' emoluments

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

	Salary	Performance bonuses	Benefits in kind	Aggregate emoluments	Pensions (see below)	Aggregate emoluments including pensions
2006	£	£	£	£	£	£
Executive						
A D Roper	196,233	8,000	568	204,801	3,847	208,648
D J S Taylor	135,333	7,250	13,558	156,141	9,703	165,844
D M O'Connor	137,667	7,250	17,102	162,019	7,830	169,849
R N Grundy	137,667	7,250	17,398	162,315	8,384	170,699
I T Hicks*	23,751	4,750	2,299	30,800	2,243	33,043
Non executive						
E S Roper	50,333	–	568	50,901	–	50,901
R S Kettel	31,004	–	–	31,004	–	31,004
J N E Sparey	32,000	–	–	32,000	–	32,000
	<u>743,988</u>	<u>34,500</u>	<u>51,493</u>	<u>829,981</u>	<u>32,007</u>	<u>861,988</u>

Directors' emoluments *(continued)*

	Salary	Performance bonuses	Benefits in kind	Aggregate emoluments	Pensions (see below)	Aggregate emoluments including pensions
2005	£	£	£	£	£	£
Executive						
A D Roper	154,200	–	577	154,777	110,662	265,439
D J S Taylor	115,000	–	13,855	128,855	12,896	141,751
D M O'Connor	122,000	–	15,397	137,397	8,067	145,464
R N Grundy	118,667	–	15,504	134,171	7,694	141,865
Non executive						
E S Roper	47,000	–	577	47,577	–	47,577
R S Kettel	29,004	–	–	29,004	–	29,004
J N E Sparey	29,000	–	–	29,000	–	29,000
	<hr/> 614,871	<hr/> –	<hr/> 45,910	<hr/> 660,781	<hr/> 139,319	<hr/> 800,100

*Disclosures made above in relation to I T Hicks relate to the period from the date of his appointment as a Director on 28 September 2006.

There were no contracts of significance during or at the end of the financial year in which a Director of the Company was materially interested.

Performance bonuses for executive Directors are earned on a basis combining increases in Group profitability, and the achievement of defined personal performance objectives. Performance bonuses are capped at 20% of base salary. Performance bonuses represent up to 17% of total pay for all executive Directors.

Benefits in kind include the provision of car benefits, fuel benefits and medical insurance. No Director waived emoluments in respect of the years ended 31 December 2006 and 2005.

Pension costs above represent the transfer value of the increase in pension benefits over the year less Directors contributions as required by the Listing Rules, together with contributions made by the Group to defined contribution schemes. For additional information in respect of Directors' pensions refer to the section 'Pensions' below.

Directors' Report

(continued)

Share options

This section of the Report of the Remuneration Committee is audited. Details of share options granted under the Executive and unapproved Executive schemes are as follows:

	Date of grant	Number of options 31 December 2006	Number of options 31 December 2005 or at date of appointment	Exercise price p	Date from which exercisable	Expiry date
D J S Taylor						
Unapproved Executive scheme	13.04.00	7,500	7,500	118.5	Apr 2003	Apr 2010
Executive scheme	5.12.00	9,500	9,500	151	Dec 2003	Dec 2010
Unapproved Executive scheme	5.12.00	20,500	20,500	151	Dec 2003	Dec 2010
Unapproved Executive scheme	19.04.02	15,000	15,000	171	Apr 2005	Apr 2012
Unapproved Executive scheme	30.04.04	10,000	10,000	208	Apr 2007	Apr 2014
		62,500	62,500			
D M O'Connor						
Executive scheme	5.12.00	2,250	9,750	151	Dec 2003	Dec 2010
Unapproved Executive scheme	19.04.02	15,000	15,000	171	Apr 2005	Apr 2012
Executive Scheme	30.04.04	4,000	4,000	208	Apr 2007	Apr 2014
Unapproved Executive Scheme	30.04.04	6,000	6,000	208	Apr 2007	Apr 2014
		27,250	34,750			
R N Grundy						
Executive scheme	5.12.00	—	9,500	151	Dec 2003	Dec 2010
Unapproved Executive scheme	5.12.00	20,500	20,500	151	Dec 2003	Dec 2010
Unapproved Executive scheme	19.04.02	15,000	15,000	171	Apr 2005	Apr 2012
Unapproved Executive scheme	30.04.04	10,000	10,000	208	Apr 2007	Apr 2014
		45,500	55,000			
I T Hicks						
Approved Executive scheme	19.04.02	—	7,500	171	April 2005	April 2012
Approved Executive scheme	30.04.04	6,000	6,000	208	April 2007	April 2014
Unapproved Executive scheme	30.04.04	4,000	4,000	208	April 2007	April 2014
		10,000	17,500			

On 15 November 2006 D M O'Connor exercised 7,500 share options granted under the Executive Share Option scheme at an exercise price of 151p, R N Grundy exercised 9,500 share options granted under the Executive Share Option scheme at an exercise price of 151p and I T Hicks exercised 7,500 share options granted under the Executive Share Option scheme at an exercise price of 171p. The market price at the date of exercise was 271p.

Share options are granted to Directors in accordance with the terms of reference of the Remuneration Committee (see page 20) to provide encouragement to enhance Group performance in the long term and having regard to each employee's responsibilities, ability and contribution. The grant of options is made at market value at the date of grant at no cost to the employee.

The above options are only exercisable subject to the satisfaction of performance criteria in relation to sustained improvement in the financial performance of the Group. In the case of the above options the Remuneration Committee consider that a sustained improvement in the financial performance of the Group represents an increase in the adjusted earnings per ordinary share of the Group of at least 6% above the increase in the Retail Price Index over the three year period from the beginning of the financial year in which the option was granted.

The market price of the Company's shares at the end of the financial year was 255p (2005: 181p). The range of prices for the year to 31 December 2006 was 179p to 273p (2005: 170p to 240p) per ordinary share.

Gains made by Directors on share options

This section of the Report of the Remuneration Committee is audited.

The gains made by Directors from the exercise of share options during the year, calculated at the market share price at the date of exercise of the options, were as follows:

	2006 £	2005 £
D J S Taylor	-	8,200
D M O'Connor	9,000	25,398
R N Grundy	11,400	8,200
I T Hicks	7,500	-
	<hr/>	<hr/>
	27,900	41,798
	<hr/>	<hr/>

Pensions

This section of the Report of the Remuneration Committee is audited.

The method of provision of pension benefits to Directors changed during the year. Up to 31 March 2006 benefits were provided through a defined benefit scheme, the Churchill Group Retirement Benefit Scheme. On 31 March 2006 the accrual of future benefits under this scheme ceased and future pension provision was made under a Group Personal Pension arrangement. The disclosures below reflect this change.

Pension benefits earned by Directors under the defined benefit scheme were as follows:

	Increase in benefit over the year (excl inflation) £	Accrued benefit £	Transfer value of increase in benefit less Directors' contributions £
A D Roper	401	90,731	3,847
D J S Taylor	441	24,653	2,260
D M O'Connor	283	24,057	346
R N Grundy	354	11,720	900
I T Hicks*	192	14,557	3,443
	<hr/>	<hr/>	<hr/>
	1,671	165,718	10,796
	<hr/>	<hr/>	<hr/>

The disclosure above is in accordance with the Listing Rules.

Directors' Report

(continued)

Pensions (continued)

	Increase in benefit over the year (incl inflation)	Transfer value at 31 December 2006	Transfer value at 31 December 2005	Increase in transfer value less Directors' contributions
	£	£	£	£
A D Roper	2,827	1,551,646	1,416,908	134,738
D J S Taylor	1,090	308,246	275,437	30,737
D M O'Connor	920	236,247	209,630	24,505
R N Grundy	653	107,534	93,959	11,463
I T Hicks*	576	88,419	78,833	9,211
	6,066	2,292,132	2,074,767	210,654

The disclosure above is in accordance with the Companies Act 1985

* Disclosures made above in relation to I T Hicks relate to his service from 1 January 2006 to 31 December 2006 although he was appointed to the Board on 28 September 2006.

The accumulated total benefit is the amount of pension that would be paid each year on retirement based on service to 31 December 2006 or the date of retirement if earlier.

All transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer values of the accrued entitlement represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the Directors' pension benefits that they earned in respect of qualifying services. They do not represent the sums payable to the individual Directors.

The increase in the transfer value less Directors' contributions is the increase in the transfer value of the accrued benefits during the year after deducting the Directors' personal contributions to the scheme.

The transfer value of the increase in accrued benefits, required by the Listing Rules, discloses the current value of the increase in accrued benefits that the Director has earned in the period, whereas the change in his transfer value, required by the Companies Act, discloses the absolute increase or decrease in his transfer value and includes the change in value of accrued benefits that results from market volatility affecting the transfer value at the beginning of the period, as well as the additional value earned in the year.

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

All executive Directors are deferred members of the Churchill Retirement Benefit Scheme. The pension benefit of A D Roper is funded to allow retirement based on accrued service to 31 March 2006 on attaining the age of 60 years. A D Roper did not contribute to the Scheme. The pension benefit of D J S Taylor is funded to allow retirement between the ages of 60 and 65 with a pension based on accrued service to 31 March 2006. The pension benefits of D M O'Connor, R N Grundy and I T Hicks are funded to allow retirement at 65 with a pension based on accrued service to 31 March 2006. D J S Taylor, D M O'Connor, R N Grundy and I T Hicks contribute 8% of pensionable earnings towards Scheme benefits. Only basic salary is pensionable.

Pensions *(continued)*

Following the cessation of future accrual to the Churchill Group Retirement Benefit Scheme, D J S Taylor, D M O'Connor, R N Grundy and I T Hicks became members of the Churchill China 2006 Group Personal Pension Plan on 1 April 2006. Contributions paid by the Group in respect of this scheme were at a rate of 7% of pensionable salary.

	2006	2005
	£	£
D J S Taylor	7,443	–
D M O'Connor	7,484	–
R N Grundy	7,484	–
I T Hicks*	1,663	–
	<hr/>	<hr/>
	24,074	–
	<hr/>	<hr/>

* Since appointment on 28 September 2006.

Directors' service contracts

This section of the Report of the Remuneration Committee is not audited.

Executive Directors are not appointed on contracts for a fixed duration. A D Roper and D J S Taylor have contracts of service which can be terminated by the Company or the Director with a notice period of twelve months. D M O'Connor and R N Grundy have service contracts that can be terminated with a notice period of twelve months from the Company or six months from the Director. I T Hicks has a service contract that can be terminated with a notice period of six months from the Company or three months from the Director. A D Roper's and D J S Taylor's service contracts were signed on 26 October 1994. The service contracts for D M O'Connor, R N Grundy and I T Hicks were signed on 21 March 2000, 11 July 2000 and 5 October 2001 respectively.

Non executive Directors are appointed on fixed term contracts of two years duration. Fixed term contracts for non executive Directors were signed on the following dates; E S Roper 20 March 2006, R S Kettel 4 March 2005 and J N E Sparey 20 March 2006.

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

Directors' interests

This section of the Report of the Remuneration Committee is audited.

The interests of the Directors and their immediate families and family trusts at 31 December 2006 in the 10p ordinary shares of the Company were as follows:

	2006	2005
E S Roper	1,133,045	1,163,045
A D Roper	862,430	862,430
D J S Taylor	10,000	10,000
R S Kettel	20,000	20,000
D M O'Connor	4,599	4,599
J N E Sparey	19,000	19,000
R N Grundy	6,500	4,500
I T Hicks	1,500	–
	<hr/>	<hr/>
	2,057,074	2,083,574
	<hr/>	<hr/>

Directors' Report

(continued)

Directors' interests (continued)

A D Roper's non-beneficial shareholdings included above at 31 December 2006 were 200,000 (2005: 200,000 10p ordinary shares), as trustee of various trusts established for the benefit of his children.

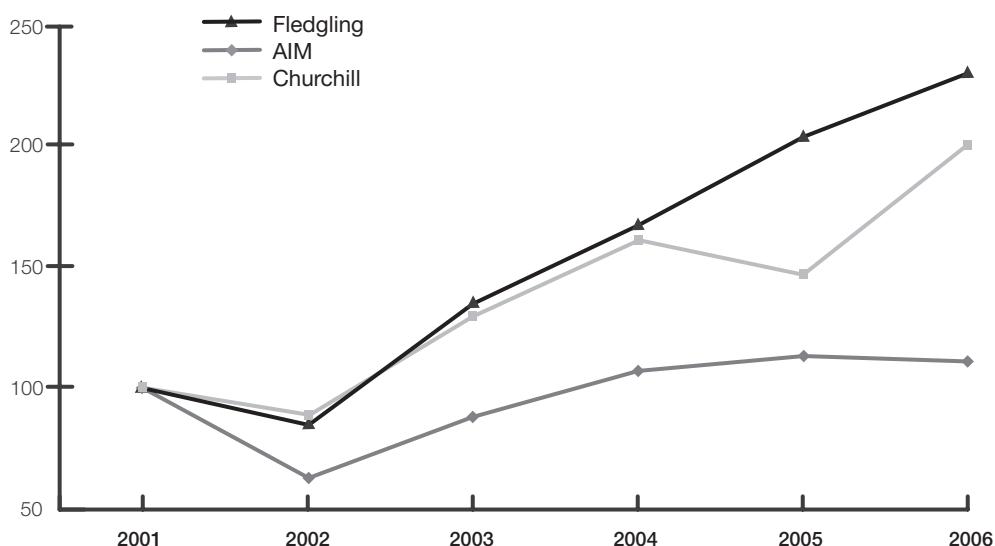
E S Roper's and A D Roper's interests in the 10p ordinary shares of the Company at 31 December 2006 represented 10.4% and 7.9% (2005: 10.7% and 7.9%) respectively of the Company's issued share capital.

There has been no change in the interests set out above between 31 December 2006 and 21 March 2007.

Performance Graph

This section of the Report of the Remuneration Committee is not audited.

Total Shareholder Return



(Source: Bloomberg)

Over the five year period against which the total shareholder return from the Group is being assessed, performance has been substantially above that generated by the AIM index, but slightly below that shown by the FTSE fledgling index. The Group has generally achieved a steady rate of return averaging 15% on a compound basis, although in 2005 returns dropped in that year principally due to lower earnings. Over the five year period total shareholder return from the Company has been 101%, whilst that achieved by the AIM index as a whole was 11% and the FTSE Fledgling 132%. In the year to 31 December 2006 the overall return from the Company was 36%, the AIM index achieved a -2% return and the FTSE Fledgling index 13%.

In the opinion of the Directors the above indices are the most appropriate indices against which to measure the total shareholder return of Churchill China plc as they are constituted of businesses of similar size to the Company.

On behalf of the Board

R S Kettel

Chairman of the Remuneration Committee

21 March 2007

Corporate Governance

As a Company quoted on the Alternative Investment Market of the London Stock Exchange, the Company is not required to comply with the Principles of Good Governance and Code of Best Practice ("the Combined Code"), however the Board supports the standards required by the Combined Code. During the year ended 31 December 2006 the Company was in full compliance with the Code provisions except in a limited number of areas as discussed in the following paragraphs.

The Board of Directors

The Board is currently composed of five executive and three non executive Directors and meets at least eleven times per year. It is felt that the current composition and operation of the Board is adequate to ensure a balance of power and authority. The non executive members of the Board take an active and influential part in Board procedures and a senior independent non executive Director, R S Kettel, has been formally appointed.

The Combined Code recommends that the Boards of listed companies include at least three independent non executive Directors. R S Kettel and J N E Sparey are considered to be independent. Given his period of executive service prior to his current appointment, his significant shareholding and family relationships, E S Roper is not considered to be independent as defined by the terms of the Combined Code. The Board does not believe that given the size of the Group and the nature of non executive Directors' involvement in the business, that this non compliance has been of detriment to the Group.

In addition to a formal agenda covering financial control, management and business development, there is appropriate debate addressing areas outside the regular agenda to ensure that all Directors are able to take an informed view of the progress of the business. The nature of the organisational structure of the Group allows executive Directors to maintain a close involvement in all aspects of the Group's operations. A schedule of matters reserved for Board decision is maintained and a procedure exists to allow Directors access to independent professional advice if required.

The following table shows the attendance of Directors at Board meetings through the year.

	Meetings held	Meetings attended
E S Roper	11	11
A D Roper	11	11
D J S Taylor	11	11
R S Kettel	11	9
D M O'Connor	11	10
J N E Sparey	11	11
R N Grundy	11	10
I T Hicks (since appointment)	3	3

There are two principal sub-committees of the Board.

The Audit Committee, which is wholly composed of non executive Directors, meets at least twice per year to receive reports from executive management and external auditors and is normally attended by the Finance Director. The audit committee is chaired by R S Kettel.

The Remuneration Committee is wholly composed of non executive Directors and is normally attended by the Group Managing Director who takes no part in discussions on his own remuneration. The remuneration committee is chaired by R S Kettel.

Terms of reference for both Committees and a remuneration policy statement have been agreed by the Board.

The Company does not have a nomination committee as new Board appointments are discussed by the Board as a whole rather than by delegation to a committee.

Directors' Report

(continued)

Internal control

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

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

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

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

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

Internal audit

The Company does not employ an internal audit department and does not believe that, given the size and structure of the business, the geographic proximity of its major operations and the close control effected by the involvement of Executive Directors in the day to day running of the business, such a department would provide an effective means of gaining significant improvements in internal control. The requirement for an internal audit function is reviewed annually.

Internal financial control

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

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 preparing financial statements.

By order of the Board

D J S Taylor
Company Secretary

21 March 2007

Independent Auditors' Report to the Members of Churchill China plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Churchill China plc for the year ended 31 December 2006 which comprise the consolidated profit and loss account, the Group and Company balance sheets, the Group cash flow statement, the Group statement of total recognised gains and losses, the note of historical cost profits and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' report, the chairman's statement, the corporate governance statement, and the remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

We also, at the request of the Directors (because the Company applies the Listing Rules of the Financial Services Authority as if it were a listed company), review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code (2003) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Parent Company's affairs as at 31 December 2006 and of the Group's profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham

21 March 2007

Consolidated Profit and Loss Account

for the year ended 31 December 2006

	Notes	Before exceptional items 2006	Exceptional items 2006	Total 2006	Before exceptional items 2005 (as restated – note 28) £'000	Exceptional items 2005 (as restated – note 28) £'000	Total 2005 £'000
Turnover –							
continuing operations	2	47,757	–	47,757	46,399	–	46,399
Operating profit –							
continuing operations	3	2,777	784	3,561	2,696	–	2,696
Share of operating profit/(loss) of associate net of impairment	5	5	–	5	(21)	–	(21)
Profit on disposal of fixed assets	6	–	1,876	1,876	–	269	269
Net interest receivable and similar items	7	241	–	241	75	–	75
Other financing income/(cost)	21	64	–	64	(189)	–	(189)
Profit on ordinary activities							
before taxation	8	3,087	2,660	5,747	2,561	269	2,830
Tax on profit on ordinary activities	9	(874)	(785)	(1,659)	(645)	493	(152)
Profit on ordinary activities							
after taxation	10	2,213	1,875	4,088	1,916	762	2,678
Dividends				(1,217)			(1,194)
Retained profit for the year							
				2,871			1,484
Earnings per ordinary share							
	11			37.6p			24.7p
Diluted earnings per share							
	11			37.5p			24.6p

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December 2006

	2006	2005
	(as restated – note 28)	£'000
Profit for the financial year	4,088	2,678
Actuarial gain on defined benefit pension scheme (note 21)	1,110	1,051
Movement on deferred tax related to the actuarial gain on defined benefit pension scheme (note 20)	(333)	(315)
Currency translation differences	(10)	7
Total gains and losses recognised for the year	4,855	3,421
 Prior period adjustment (note 28)	 (13)	
Total gains and losses recognised since the last annual report	4,842	3,421

Note of Historical Cost Profits and Losses

for the year ended 31 December 2006

	2006	2005
	(as restated – note 28)	£'000
Reported profit on ordinary activities before taxation	5,747	2,830
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	12	12
Historical cost profit on ordinary activities before taxation	5,759	2,842
 Historical cost profit for the year retained after taxation and dividends	 2,883	 1,496

Consolidated Balance Sheet

as at 31 December 2006

	Notes	2006 £'000	2005 (as restated – note 28) £'000
Fixed assets			
Intangible assets	12	34	56
Tangible assets	13	10,779	11,485
Investments	14	819	825
		11,632	12,366
Current assets			
Stocks	15	6,857	8,646
Debtors: amounts falling due within one year	16	10,412	10,537
Investments and other assets for sale	17	–	1,022
Cash at bank and in hand		6,410	2,629
		23,679	22,834
Creditors: amounts falling due within one year	18	(6,332)	(6,268)
Net current assets		17,347	16,566
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	19	–	(16)
Provisions for liabilities and charges	20	(60)	(6)
Net assets excluding pension liability		28,919	28,910
Pension liability	21	(2,764)	(6,464)
Net assets		26,155	22,446
Capital and reserves			
Called up share capital	22	1,090	1,086
Share premium account	28	2,266	2,207
Revaluation reserve	28	1,275	1,287
Other reserves	28	274	266
Profit and loss account	28	21,250	17,600
Equity shareholders' funds	25	26,155	22,446

The financial statements on pages 31 to 63 were approved by the Board of Directors on 21 March 2007 and were signed on its behalf by:

E S Roper } *Directors*
D J S Taylor

Company Balance Sheet

as at 31 December 2006

	Notes	2006	2005 (as restated – note 28) £'000
Fixed assets			
Investments	14	2,601	2,601
Current assets			
Debtors: amounts falling due after one year	16	13,226	14,440
Debtors: amounts falling due within one year	16	119	115
Cash at bank and in hand		293	227
		13,638	14,782
Creditors: amounts falling due within one year	18	(33)	(24)
Net current assets		13,605	14,758
Total assets less current liabilities		16,206	17,359
Net assets		16,206	17,359
Capital and reserves			
Called up share capital	22	1,090	1,086
Share premium account	28	2,266	2,207
Other reserves		21	13
Profit and loss account	28	12,829	14,053
Equity shareholders' funds		16,206	17,359

The financial statements on pages 31 to 63 were approved by the Board of Directors on 21 March 2007 and were signed on its behalf by:

E S Roper **D J S Taylor** } Directors

Consolidated Cash Flow Statement

for the year ended 31 December 2006

	2006	2005
	(as restated – note 28)	£'000
	£'000	£'000
Net cash inflow from continuing operating activities (see page 36)	2,747	4,105
Returns on investments and servicing of finance		
Interest received	230	67
Taxation	(316)	(368)
Capital expenditure		
Purchase of tangible fixed assets	(747)	(2,380)
Sale of tangible fixed assets	3,053	1,287
Net cash inflow/(outflow) from capital expenditure	2,306	(1,093)
Equity dividends paid to shareholders	(1,217)	(1,194)
Financing		
Issue of ordinary shares	63	99
Payment of principal under finance leases	(22)	(6)
Net cash inflow from financing	41	93
Increase in cash	3,791	1,610

Reconciliation of Operating Profit to Net Cash Inflow from Continuing Activities

for the year ended 31 December 2006

	2006 £'000	2005 (as restated – note 28) £'000
Continuing operating activities		
Operating profit before exceptional costs	2,777	2,696
Exceptional items	784	–
	<hr/>	<hr/>
Operating profit after exceptional costs	3,561	2,696
Depreciation	1,314	1,007
Profit on disposal of tangible fixed assets	(16)	(53)
Goodwill amortisation	22	28
Pension adjustment – exceptional curtailment (see note 3)	(1,150)	–
Charge for share based payments	8	7
Decrease in stocks	1,789	1,346
(Increase)/decrease in debtors	(9)	838
Increase/(decrease) in creditors	197	(403)
Decrease in provisions and liabilities	(6)	(72)
	<hr/>	<hr/>
Net cash inflow before additional pension costs	5,710	5,394
Additional cash contributions to the pension scheme (see note 21)	(2,800)	(1,200)
Other cash pension costs	(163)	(89)
	<hr/>	<hr/>
Net cash inflow from continuing operating activities	2,747	4,105
	<hr/>	<hr/>

Reconciliation of Net Cash Flow to Movement in Net Funds

	2006 £'000	2005 £'000
Increase in net cash during the year	3,791	1,610
Cash outflow from decrease in debt and lease financing	22	6
	<hr/>	<hr/>
Changes in net funds resulting from cash flows	3,813	1,616
New finance leases	–	(44)
Exchange adjustment	(10)	7
Net funds at the start of the year	2,591	1,012
	<hr/>	<hr/>
Net funds at the end of the year	6,394	2,591
	<hr/>	<hr/>

Analysis of Net Funds

	At 1 January 2006 £'000	Cash flow £'000	Non cash flow movements £'000	Currency movements £'000	At 31 December 2006 £'000
Cash at bank and in hand	2,629	3,791	–	(10)	6,410
Finance leases	(38)	22	–	–	(16)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	2,591	3,813	–	(10)	6,394
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Notes to the Financial Statements

for the year ended 31 December 2006

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and the Companies Act 1985. A summary of the more important accounting policies, which have been applied consistently except where noted is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention as modified by the revaluation of certain fixed assets.

Changes in accounting policies

The Group has adopted FRS 20 'Share Based Payments'. FRS 20 requires the restatement of previously reported results. The impact of the adoption of FRS 20 can be seen in Note 28.

Basis of consolidation

The consolidated financial statements include the Company and all its subsidiary undertakings. The financial statements of each undertaking in the Group are prepared to the balance sheet date. Intra-Group sales and profits are eliminated fully on consolidation.

Associate

The Group's share of profits less losses of the associate is included in the consolidated profit and loss account, and the Group's share of its net assets after any impairment to the carrying value of those assets is included in the consolidated balance sheet. These amounts are taken from the latest financial statements of the undertaking concerned, which has the same accounting reference date as the Group. Since the accounting policies of the associate do not necessarily conform in all respects to those of the Group, adjustments are made on consolidation where the amounts involved are material to the Group.

Goodwill

Goodwill arising on acquisitions made since the introduction of FRS 10 represents the excess of the fair value of the consideration given over the fair value of the assets and liabilities acquired and is amortised on a straight line basis over the period over which, in the opinion of the Directors, the value of the underlying business acquired is expected to exceed the value of the underlying assets. This period is not normally expected to exceed 20 years. Prior to the introduction of the new accounting standard goodwill was written off immediately to reserves.

Tangible fixed assets

Tangible fixed assets are shown at cost, as adjusted for the revaluation of certain land and buildings.

Depreciation is calculated so as to write off the cost, or valuation, of tangible fixed assets, less their estimated residual values over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

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

Freehold land is not depreciated.

Notes to the Financial Statements

for the year ended 31 December 2006

1 Principal accounting policies *(continued)*

Impairment of fixed assets and goodwill

Impairments are provided for where it is believed the assets concerned have been subject to an impairment event and that their carrying value is above the higher of their net realisable values and values in use. Values in use are calculated using discounted cash flows using the Group's cost of capital where applicable. Impairment write downs on previously revalued assets are charged against revaluation reserves, with any additional write down in excess of previous revaluations being charged to the profit and loss account.

Operating and finance leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. Provision is made where necessary for obsolete, slow moving and defective stocks.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year except where those assets and liabilities are covered by forward exchange contracts. All foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Trading transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the transaction was entered into.

For consolidation purposes the results of the overseas subsidiary are translated at the average rate for the year and its assets and liabilities at the year end are translated at the closing rate. Exchange differences on the retranslation of opening net assets are taken to reserves. Assets and liabilities are translated at the rate of exchange ruling at the balance sheet date.

Financial instruments

Gains and losses on forward exchange contracts matching foreign currency assets and liabilities are recognised in the profit and loss account in the year in which the gain or loss on the matched asset or liability is included in the financial statements.

Turnover

Turnover, which excludes value added tax, sales between Group companies and trade discounts, represents the invoiced value of goods and services supplied.

Investment income

Income from investments, other than from the associate, is included, together with the related tax credit, in the consolidated profit and loss account on an accruals basis.

1 Principal accounting policies *(continued)*

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements. Deferred tax assets are not recognised to the extent that the transfer of future economic benefits in the future is uncertain.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Provisions

Provisions for liabilities and charges are made where an obligation exists at the balance sheet date. Provisions for liabilities and charges are calculated to provide for the cost of completing the restructuring of operations. Provisions are discounted only where it is expected that payments in respect of the amounts provided will be incurred after more than one year from the balance sheet date.

Pension scheme arrangements

The Group operates a defined benefit pension scheme and defined contribution pension schemes. The defined benefit pension scheme is contracted out of the state scheme. The defined benefit scheme is valued every three years by a professionally qualified independent actuary, the rate of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the valuation. Following the adoption of FRS17, the regular service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service, is charged to operating profit in the year. A credit representing the expected return on the assets of the scheme during the year is included within other financing cost. This is based on the market value of the assets of the scheme. A charge representing the expected increase in the present value of the liabilities in the scheme is included within other financing costs. This arises from the liabilities of the scheme being one year closer to payment. 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, net of deferred tax. Differences between actual and expected return on assets during the year are recognised in the statement of total recognised gains and losses in the year, together with differences arising from changes in assumptions. The treatment of curtailment benefits is outlined in note 3. The defined contribution pension schemes are not contracted out of the state scheme. Costs are charged as they are incurred.

Share based payment

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

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

Notes to the Financial Statements

for the year ended 31 December 2006

2 Turnover analysis

The Directors consider that the Group's activities are a single class of business.

The analysis by geographical area of the Group's turnover by destination is set out below:

Geographical segment	2006 £'000	2005 £'000
United Kingdom	29,906	30,953
Rest of Europe	8,525	9,549
North America	6,667	4,208
Australasia	692	575
Far East	404	197
Other	1,563	917
	47,757	46,399

Materially all turnover and profit before taxation arise from the management of trading relationships from the UK and net assets are mainly UK based.

3 Operating profit

	Before exceptional items 2006 £'000	Exceptional items 2006 £'000	Total 2006 £'000	Total (as restated – note 28) 2005 £'000
Turnover	47,757	–	47,757	46,399
Changes in stocks of finished goods and work in progress	(1,599)	–	(1,599)	(1,079)
Raw materials	(2,581)	–	(2,581)	(2,709)
Staff costs (note 4)	(15,084)	1,092	(13,992)	(15,326)
Other external charges	(24,688)	–	(24,688)	(23,554)
Depreciation and other amounts written off tangible and intangible fixed assets	(1,028)	(308)	(1,336)	(1,035)
Operating profit	2,777	784	3,561	2,696

All of the above relate to continuing operations.

Exceptional items

Costs arising from the restructuring of certain manufacturing operations during 2006 and the resulting write down of tangible fixed assets have been treated as exceptional and have been charged in arriving at the operating profit for the year. The cessation of future accrual to the retirement benefit scheme on 31 March 2006 led to a one off adjustment under FRS 17 'Retirement Benefits' in relation to the curtailment of future benefits. This amount has been treated as exceptional given its size.

3 Operating profit *(continued)*

	2006 £'000	2005 £'000
Restructuring costs	(366)	–
Curtailment benefit – defined benefit pension scheme	1,150	–
	784	–

A charge of £235,000 (2005: £nil) has been included in the overall tax charge in relation to the exceptional items. The cash outflow in relation to these exceptional items during the year was £55,000 (2005: £78,000).

4 Employee information

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

By activity	2006 Number	2005 Number
Production	401	478
Sales and administration	195	185
	596	663

Employment costs – all employees including executive Directors:

	2006 £'000	2005 (as restated – note 28) £'000
Staff costs (for the above persons)		
Wages and salaries	13,291	13,392
Social security costs	1,121	1,070
Current service cost less curtailments (see note 21)	(943)	604
Defined contribution pension cost (see note 21)	341	134
Other pension costs (see note 21)	174	119
Cost of employee share schemes (see note 24)	8	7
	13,992	15,326

Directors' emoluments

The statutory disclosures for Directors' emoluments, being the aggregate emoluments, the aggregate amount of gains made by Directors on the exercise of share options and the amount of money receivable by Directors under long term incentive plans in respect of qualifying services have been included within the Remuneration Report. In addition statutory disclosures in respect of the number of Directors to whom retirement benefits are accruing under defined benefit schemes is disclosed.

Notes to the Financial Statements

for the year ended 31 December 2006

5 Share of operating profit of associate net of impairment

	2006 £'000	2005 £'000
Share of operating profit of associate	89	15
Impairment of investment in associate	(84)	(36)
	5	(21)

The Directors have performed a review of the carrying value of the investment in the Group's associated company, Furlong Mills Limited, using a rate of 4.7% (2005: 5.6%) to discount cash flows arising from the investment. Given changes in the market place in which Furlong Mills Limited operates the Directors have concluded that it is appropriate to reduce the carrying value of the Group's investment. As a result an impairment charge of £84,000 (2005: £36,000) has been recognised.

6 Profit on disposal of fixed assets

	2006 £'000	2005 £'000
Profit on disposal of fixed assets	1,876	269

The profit on disposal recognised in 2006 is in relation to the sale of Alexander Pottery in January 2006. A taxation charge of £550,000 has been charged in the Group's overall tax charge in respect of this disposal. Net receipts of £2,898,000 were received in respect of this disposal in the year.

The profit on disposal recognised in 2005 is in relation to the sale of Anchor Pottery, Longton in October 2005. A taxation charge of £57,000 has been included in the Group's overall charge in respect of this disposal. Net receipts of £1,166,000 were received in respect of the disposal during the year.

7 Net interest receivable and similar items

	2006 £'000	2005 £'000
Other interest receivable	230	40
Other interest payable	-	(27)
Share of interest receivable of associate	11	8
Income from fixed asset investment	-	54
	241	75
	<hr/> <hr/>	<hr/> <hr/>

8 Profit on ordinary activities before taxation

	2006 £'000	2005 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation charge for the year:		
Tangible owned fixed assets	989	1,007
Tangible fixed assets held under finance leases	17	-
Tangible owned fixed assets – exceptional	308	-
Amortisation of goodwill	22	28
Auditors' remuneration (Company £1,500 (2005: £1,500))	70	78
Profit on disposal of tangible fixed assets	(16)	(53)
Profit on disposal of tangible fixed assets – exceptional	(1,876)	(269)
Operating lease rentals plant and machinery	83	83
	<hr/> <hr/>	<hr/> <hr/>
Auditors' remuneration	2006 £'000	2005 £'000
Amounts paid to the Group's auditors were as follows:		
Audit services (Company £1,500 (2005: £1,500))	70	78
Non-audit services – taxation advice	12	20
	<hr/> <hr/>	<hr/> <hr/>
	82	98
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

for the year ended 31 December 2006

9 Tax on profit on ordinary activities

	2006	2005 (as restated – note 28)
	£'000	£'000
United Kingdom Corporation tax charge at 30% (2005: 30%):		
Current year	122	396
Under/(over) provision in respect of prior years	50	(125)
Share of corporation tax of associate	23	2
Foreign tax		
Current year	16	10
Total current tax		
	211	283
Deferred tax		
Reversal of timing differences	1,448	419
Recognition of deferred tax asset (see note 20)	–	(550)
Total deferred tax		
	1,448	(131)
Tax on profit on ordinary activities		
	1,659	152

The corporation tax charge for the year includes a credit of £17,000 in relation to restructuring costs which have been treated as exceptional. The deferred taxation charge for the year includes a charge of £550,000 in respect of the disposal of Alexander Pottery, a charge of £345,000 in respect of curtailment benefits under FRS 17 and a credit of £93,000 in relation to restructuring costs all of which have been treated as exceptional.

The corporation tax charge for 2005 included a charge of £57,000 in relation to the disposal of Anchor Pottery which has been treated as exceptional. The deferred tax credit for 2005 included the recognition of a deferred tax asset of £550,000 in accordance with FRS 19 "Deferred Tax". This deferred tax asset reflects the recognition of capital losses which were expected to be realised in 2006 offsetting capital gains arising from the profit on disposal of the Alexander Pottery. This credit has been treated as exceptional.

9 Tax charge on profit on ordinary activities *(continued)*

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2006 £'000	2005 (as restated – note 28) £'000
Profit on ordinary activities	5,747	2,830
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005: 30%)	1,724	849
Effects of:		
Expenses not deductible for tax purposes	28	9
Difference between pension charge and cash contributions	(860)	(330)
Depreciation for the year less than capital allowances	(155)	(114)
Capital losses utilised	(563)	–
Adjustment to tax charge in respect of previous years	50	(125)
Other	(13)	(6)
Total current tax	211	283

There are no significant factors affecting the future tax charge.

10 Dividends

	2006 £'000	2005 £'000
Ordinary		
Final 2005 7.3p per 10p ordinary share (Final 2004: 7.3p)	793	792
Interim 2006 3.9p per 10p ordinary share paid (Interim 2005: 3.7p)	424	402
	1,217	1,194

Notes to the Financial Statements

for the year ended 31 December 2006

11 Earnings per ordinary share

The basic earnings per ordinary share is based on the profit on ordinary activities after taxation and on 10,867,167 (2005: 10,844,567) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The adjusted earnings per ordinary share is based on the profit on ordinary activities after taxation and adjusted to take into account exceptional items, profit on disposal of fixed assets and the recognition of related deferred tax assets. The Directors believe that adjusted earnings per share more closely reflects the underlying performance of the Group.

	2006	2005 (as restated – note 28)
	Pence per share	Pence per share
Basic earnings per share (Based on earnings £4,088,000 (2005: £2,678,000))	37.6	24.7
Adjustments:		
Exceptional items (note 3)	2.4	–
Profit on disposal of fixed assets	(12.2)	(2.0)
Curtailment of pension benefits (note 3)	(7.4)	–
Recognition of deferred tax asset	–	(5.1)
Adjusted earnings per share	20.4	17.6

Diluted basic earnings per ordinary share is based on the profit on ordinary activities after taxation and on 10,910,580 (2005: 10,882,287) ordinary shares, being the weighted average number of ordinary shares in issue during the year of 10,867,167 (2005: 10,844,567) increased by 43,413 (2005: 37,720) shares, being the weighted average number of ordinary shares which would have been issued if the outstanding options to acquire shares in the Group had been exercised at the average share price during the year. Diluted adjusted earnings per ordinary share is based on the profit on ordinary activities after taxation and adjusted to take into account exceptional items, profit on disposal of fixed assets and the recognition of deferred tax assets.

	2006	2005 (as restated – note 28)
	Pence per share	Pence per share
Diluted basic earnings per share (Based on earnings £4,088,000 (2005: £2,678,000))	37.5	24.6
Adjustments:		
Exceptional items (note 3)	2.4	–
Profit on disposal of fixed assets	(12.2)	(1.9)
Curtailment of pension benefits (note 3)	(7.4)	–
Recognition of deferred tax asset	–	(5.1)
Diluted adjusted earnings per share	20.3	17.5

12 Intangible fixed assets

The Company has no intangible fixed assets. Details of these relating to the Group are as follows:

	Goodwill £'000
Cost	
At 1 January 2006 and 31 December 2006	444
Aggregate amortisation	
At 1 January 2006	388
Charge for the year	22
At 31 December 2006	410
Net book value	
At 31 December 2006	34
At 31 December 2005	56

The goodwill arising on the acquisition of Wren Giftware was amortised on a straight line basis over 10 years. This period is the period over which the Directors estimate that the value of the underlying business acquired is expected to exceed the value of underlying assets.

13 Tangible fixed assets

The Company has no tangible fixed assets. Details of those relating to the Group are as follows:

	Freehold land and buildings £'000	Plant and machinery £'000	Motor vehicles £'000	Fixtures and fittings £'000	Total £'000
Cost/valuation					
At 1 January 2006	9,578	14,768	795	3,501	28,642
Additions	33	221	346	147	747
Disposals	–	(831)	(359)	–	(1,190)
At 31 December 2006	9,611	14,158	782	3,648	28,199
Depreciation					
At 1 January 2006	1,305	12,486	336	3,030	17,157
Charge for the year	146	836	146	186	1,314
Disposals	–	(831)	(220)	–	(1,051)
At 31 December 2006	1,451	12,491	262	3,216	17,420
Net book value					
At 31 December 2006	8,160	1,667	520	432	10,779
At 31 December 2005	8,273	2,282	459	471	11,485

The Group adopted FRS 15 'Tangible Fixed Assets' and has followed the transitional provisions to retain the book value of land and buildings, certain of which were revalued in 1992.

Notes to the Financial Statements

for the year ended 31 December 2006

13 Tangible fixed assets *(continued)*

Freehold land and buildings are included at valuation on an existing use basis as follows:

	£'000
Valuations in 1992	3,315
	<hr/> <hr/>

The historical cost and related depreciation of freehold land and buildings included at a valuation are set out below:

	Freehold land and buildings	
	2006	2005
	£'000	£'000
Historical cost	7,905	7,872
Depreciation based on cost	(1,516)	(1,382)
Historical cost net book value	6,389	6,490
	<hr/> <hr/>	<hr/> <hr/>

The above figures may be reconciled to the overall cost/valuation of land and buildings shown above as follows:

	Assets at	Additions	Total
	1992 value	post 1992	£'000
	£'000	£'000	£'000
Historical cost of land and buildings held at 1992 valuation	1,609	–	1,609
Historical cost of land and buildings additions post 1992 held at cost	–	6,296	6,296
Historical cost of land and buildings	1,609	6,296	7,905
Increase in value – 1992 valuation	1,706	–	1,706
Cost/valuation of land and buildings	3,315	6,296	9,611
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The net book value of plant and machinery includes an amount of £51,000 (2005: £68,000) in respect of assets held under finance leases and hire purchase contracts. Depreciation charged on these assets during the year was £17,000 (2005: £nil).

14 Investments

Group

Fixed asset investments

	Interest in Associate £'000	Other investment £'000	Total £'000
Cost			
At 1 January 2006	1,392	22	1,414
Share of retained profit	78	—	78
At 31 December 2006	1,470	22	1,492
Impairment			
At 1 January 2006	589	—	589
Impairment of interest in associate	84	—	84
At 31 December 2006	673	—	673
Net book value			
At 31 December 2006	797	22	819
At 31 December 2005	803	22	825

Interest in associate

This represents a holding of 34.4% of the issued £1 ordinary shares of Furlong Mills Limited, a company registered in England, whose principal activity is that of a potters miller.

	2006 £'000	2005 £'000
Share of associate's net assets	1,526	1,448

During the year the Group purchased raw materials to a value of £1,804,000 (2005: £1,756,000) from Furlong Mills Limited. Amounts due to that company at 31 December 2006 were £171,000 (2005: £85,000).

The difference between the carrying value of the Group's interest in associate and the share of associate's net assets reflects the impairment charged in the Group's accounts and adjustments in relation to accounting policies. Further detail on the impairment charged during the year is given in note 5 to the financial statements.

	2006 £'000	2005 £'000
Shares in unlisted company at cost	22	22

Shares in unlisted company represents 35.9% (2005: 35.9%) of the issued ordinary share capital of Shraff Management Limited, a company registered in Great Britain. The Directors do not consider that the investment in Shraff Management Limited should be accounted for as an associate as Churchill China plc is not in a position to exercise significant influence over Shraff Management Limited, taking into account other large third party shareholdings.

Notes to the Financial Statements

for the year ended 31 December 2006

14 Investments *(continued)*

Company	Interests in Group undertakings £'000	Other Investments £'000	Total £'000
Fixed asset investments			
Cost or valuation			
At 1 January 2006 and 31 December 2006			
	2,627	398	3,025
Impairment			
At 1 January 2006 and 31 December 2006			
	424	–	424
Net book value			
At 1 January 2006 and 31 December 2006			
	2,203	398	2,601

The above impairment reduces the carrying value of the Company's investment in Churchill Fine Bone China (Holdings) Limited and its subsidiaries, to match the underlying net asset value of the subsidiaries concerned.

Interests in Group undertakings

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

Name of company	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held	Principal activity
Churchill China (UK) Limited	Great Britain	Ordinary	100%	Manufacture and sale of ceramic and related products
Churchill Ceramics (UK) Limited	Great Britain	Ordinary	100%	Provision of management and property services within the Group
Churchill China, Inc	USA	Ordinary	100%	Sale of ceramic and related products

Dormant companies within the Group are not included in the above analysis.

15 Stocks

The Company has no stocks. Details of stocks relating to the Group are as follows:

	2006 £'000	2005 £'000
Raw materials and consumables	197	387
Work in progress	690	491
Finished goods and goods for resale	5,970	7,768
	6,857	8,646

The Directors do not consider there is a material difference between the carrying value and replacement cost of stocks.

16 Debtors

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Amounts falling due after one year:				
Amounts owed by subsidiary undertakings	-	-	13,226	14,440
Amounts falling due within one year:				
Trade debtors	9,869	9,721	-	-
Amounts owed by subsidiary undertakings	-	-	119	115
Other debtors	23	9	-	-
Prepayments and accrued income	219	372	-	-
Deferred tax (see note 20)	301	435	-	-
	10,412	10,537	119	115
Total debtors	10,412	10,537	13,345	14,555

Some element of the deferred tax asset may be due in more than one year. As the timing and extent of future profits and capital expenditure are not certain, this has not been quantified.

Debtors include the following amounts receivable in currencies other than sterling:

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
US dollars	1,318	1,006	-	-
Euro	1,039	1,038	-	-
	2,357	2,044	-	-

17 Investments and other assets for sale

	2006 £'000	2005 £'000
Land and buildings, plant and machinery	-	1,022

At 31 December 2005 the above amount represented the carrying value less deposits received of certain land, buildings, plant and machinery at Alexander Pottery, Cobridge, Stoke on Trent, held as an asset for sale. The sale of this asset was completed on 10 January 2006 for total proceeds of £3,000,000.

Notes to the Financial Statements

for the year ended 31 December 2006

18 Creditors: amounts falling due within one year

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Trade creditors	1,787	2,246	—	—
Amounts due to subsidiary company	—	—	13	13
Obligations under finance leases	16	22	—	—
Taxation and social security	934	1,160	19	6
Corporation tax	191	318	—	4
Other creditors	2,864	1,975	—	—
Accruals and deferred income	540	547	1	1
	<hr/>	<hr/>	<hr/>	<hr/>
	6,332	6,268	33	24
	<hr/>	<hr/>	<hr/>	<hr/>

Trade creditors include an amount of £1,042,000 (2005: £874,000) due in US dollars, and amounts of £2,000 (2005: £1,000) due in Euros.

19 Creditors: amounts falling due after more than one year

	2006 £'000	2005 £'000
Obligations under finance leases	—	16
Finance leases:		
Repayable in one year or less	16	22
Repayable between one and two years	—	16
	<hr/>	<hr/>
	16	38
	<hr/>	<hr/>

20 Provisions for liabilities and charges

	Restructuring provision £'000	Deferred tax £'000
As at 1 January 2006	6	(435)
Charged to the profit and loss account	—	194
Utilised in year	(6)	—
	<hr/>	<hr/>
At 31 December 2006	—	(241)
Included in debtors (note 16)	—	301
	<hr/>	<hr/>
Provisions at 31 December 2006	—	60
	<hr/>	<hr/>

20 Provisions for liabilities and charges *(continued)*

Deferred taxation

Deferred taxation has been provided to the extent that the Directors believe on the basis of reasonable assumptions and the intentions of management, it is probable that a liability or asset will crystallise. The amount provided is:

	2006 £'000	2005 £'000
Accelerated capital allowances	172	135
Short term timing differences	(413)	(570)
Deferred tax asset	(241)	(435)
Deferred tax asset on pension liability (note 21)	(1,184)	(2,771)
Deferred tax asset including asset on pension fund liability	(1,425)	(3,206)

The above deferred tax asset is disclosed as follows:

	2006 £'000	2005 £'000
Deferred tax current asset (note 16)	(301)	(435)
Deferred tax provision	60	–
Deferred tax on pension scheme liability (note 21)	(1,184)	(2,771)
(1,425)	(3,206)	

The movement on deferred tax is as follows:

	2006 £'000
At 1 January 2006	(3,206)
Amount debited to profit and loss account (note 9)	1,448
Amount debited to statement of total recognised gains and losses	333
At 31 December 2006 including deferred tax asset on pension liability	(1,425)

Deferred tax provision

A deferred taxation liability in respect of the 1992 revaluation of Marlborough Pottery of £132,000 (2005: £132,000) 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 available capital losses.

In addition to the above, the Group have capital losses amounting to £6,251,000 (2005: £7,056,000) which at the date of approval of the financial statements have been agreed by the tax authorities. The related deferred tax asset has not been recognised except in relation to the proportion that the Directors believe may be recovered in the foreseeable future (£nil (2005: £550,000)).

Restructuring provisions

A provision was established in 2005 for redundancy and similar costs charged to the profit and loss account, but not paid during the year. These costs were paid in 2006.

Notes to the Financial Statements

for the year ended 31 December 2006

21 Pension and similar obligations

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

The assets of the schemes are held separately from those of the Group. The total pension cost for the Group was £722,000 less an exceptional credit of £1,150,000 re curtailment benefits giving a net credit of £428,000 (2005: cost £857,000). Of this cost, £207,000 less an exceptional credit of £1,150,000 re curtailment benefits, giving a net credit of £943,000 (2005: charge of £604,000), related to the Churchill Group Retirement Benefit Scheme, £136,000 (2005: £134,000) was in respect of the Churchill China 1999 Pension Scheme and £205,000 (2005: £nil) was in respect of the Churchill China 2006 Group Personal Pension Scheme. The balance of cost was incurred in respect of overseas and other pension arrangements. At the year end amounts due to pension funds in respect of Company contributions were £36,000 (2005: £69,000).

In the period up to the date of cessation of the future accrual of benefits under the Churchill Group Retirement Benefit Scheme on 31 March 2006 the Group paid contributions to the Scheme at a rate of 13.6% of pensionable salary (2005: 13.1%). In addition a contribution of £3,009,000 (2005: £1,200,000) was made in respect of the amortisation of past service liabilities. The forward funding rate of the Scheme following this additional payment and the closure of the Scheme to future accrual was agreed with the Scheme Trustees and Actuary in May 2006. The Group will continue to make payments of £240,000 per annum in respect of the amortisation of past service deficits. These payments will be reviewed at the date of the next triennial actuarial valuation on 31 May 2008.

FRS 17

The most recent full valuation of the Group's defined benefit pension scheme, the Churchill Group Retirement Benefit Scheme (performed on 31 May 2005) has been updated to 31 December 2006 to take account of the requirements of FRS 17. The major assumptions, as recommended by the Scheme Actuary, used to calculate the present value of scheme liabilities were as follows:

	2006 % per annum	2005 % per annum	2004 % per annum
Discount rate	5.1%	4.8%	5.2%
Inflation rate	3.1%	2.7%	2.8%
Rate of increase in salaries	N/A	3.9%	4.0%
Rate of increase of pensions in payment	3.1%	2.7%	2.8%
Rate of increase of deferred pensions	3.1%	2.7%	2.8%

21 Pension and similar obligations *(continued)*

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

	Long term rate of return expected at 31 December	Value 2006 %	Long term rate of return expected at 31 December	Value 2005 %	Long term rate of return expected at 31 December	Value 2004 %	Long term rate of return expected at 31 December	Value 2004 £'000
Equities	7.5%	20,215	7.1%	18,112	7.9%	14,461		
Bonds	4.7%	1,893	4.4%	1,575	4.7%	1,360		
Other	4.7%	4,904	4.4%	2,230	4.7%	1,267		
Market value of scheme assets		27,012		21,917		17,088		
Present value of scheme liabilities		(30,960)		(31,152)		(28,474)		
Deficit in the scheme		(3,948)		(9,235)		(11,386)		
Related deferred tax asset		1,184		2,771		3,416		
Net liability		(2,764)		(6,464)		(7,970)		

An analysis of the amounts that have been charged to operating profit is as follows:

	2006 £'000	2005 £'000
Current service cost	207	722
Settlements or curtailments	(1,150)	(118)
Total operating (credit)/charge	(943)	604

An analysis of the amounts that have been charged to other financing income is as follows:

	£'000	£'000
Expected return on pension scheme assets	1,559	1,292
Interest on pension scheme liabilities	(1,495)	(1,481)
Net cost	64	(189)

Notes to the Financial Statements

for the year ended 31 December 2006

21 Pension and similar obligations *(continued)*

An analysis of the amounts that have been recognised in the statement of total recognised gains and losses (STRGL) is as follows:

	2006 £'000	2005 £'000
Actual return less expected return on pension scheme assets	839	2,111
Experience gains and losses arising on pension scheme liabilities	310	53
Changes in assumptions underlying the present value of the scheme liabilities	(39)	(1,113)
Actuarial gain recognised in STRGL	1,110	1,051
	=====	=====

An analysis of the movement in deficit during the year is as follows:

	£'000	£'000
Deficit in scheme at beginning of the year	(9,235)	(11,386)
Movement in year:		
Current service cost	(207)	(722)
Contributions (including additional contribution of £2,800,000 (2005: £1,200,000)	3,170	1,893
Settlements or curtailments	1,150	118
Other financing income/(cost)	64	(189)
Actuarial gain	1,110	1,051
Deficit in scheme at end of the year	(3,948)	(9,235)
	=====	=====

A history of experience gains and losses at 31 December is as follows:

	2006	2005	2004	2003	2002
Difference between the expected and actual return on scheme assets:					
Amounts (£'000)					
Amounts (£'000)	839	2,111	296	1,234	(4,244)
Percentage of scheme assets	3%	10%	2%	8%	35%
Experience gains and losses on scheme liabilities:					
Amount (£'000)					
Amount (£'000)	310	53	(133)	(90)	(164)
Percentage of present value of scheme liabilities	1%	0%	1%	0%	1%
Total amount recognised in statement of total recognised gains and losses:					
Amount (£'000)					
Amount (£'000)	1,110	1,051	(3,601)	(499)	(5,557)
Percentage of present value of scheme liabilities	4%	3%	13%	2%	28%
	=====	=====	=====	=====	=====

22 Called up share capital

	2006 £'000	2005 £'000
Authorised		
14,300,000 ordinary shares of 10p each (2005: 14,300,000)	1,430	1,430
Allotted, called up and fully paid		
10,902,126 ordinary shares of 10p each (2005: 10,862,126)	1,090	1,086

During the year 40,000 ordinary shares of 10p each were allotted, called up and fully paid under the terms of the unapproved Executive Share Option scheme and Approved Executive Share Option. Consideration for the issue of these ordinary shares was received in the form of cash.

23 Options in shares of Churchill China plc

The following options exercisable over ordinary shares were outstanding at 21 March 2007:

Number of shares	Exercise price	Date from which exercisable	Expiry date
The Executive share option scheme			
20,250	151p	December 2003	December 2010
47,000	208p	April 2007	April 2014
The unapproved Executive share option scheme			
12,500	118.5p	April 2003	April 2010
42,000	151p	December 2003	December 2010
60,000	171p	April 2005	April 2012
53,000	208p	April 2007	April 2014

24 Share based payments

The Executive share option scheme was introduced in October 1994, a complementary unapproved Executive share option scheme was approved by shareholders in October 1996. Options under these schemes are granted with a fixed exercise price equal to the market price of the shares at the date of issue. Options are normally only exercisable after three years from the date of grant and expire ten years from the date of grant. Options granted will be exercisable given satisfaction of the requirement that adjusted earnings per ordinary share will increase by at least 6% above the increase in the Retail Price Index over the three year period from the beginning of the financial year in which the option was granted. Payment of the exercise price of options exercised is received in cash. As required by FRS 20 "Share Based Payments", a charge to the profit and loss account has been made to reflect the fair value of options granted since 7 November 2002. Options have been valued using the Black-Scholes option pricing model. No performance conditions were used in the fair value calculations. The fair value per option granted and the assumptions used in the calculation were as follows:

Notes to the Financial Statements

for the year ended 31 December 2006

24 Share based payments *(continued)*

Grant date	30 April 2004
Share price at grant date	208p
Exercise price	208p
Number of employees	12
Shares under option (10,000 lapsed)	110,000
Vesting period (years)	3
Expected volatility	25%
Option life (years)	10
Expected life (years)	5
 Risk free rate	 4.8%
 Expected dividends expressed as a dividend yield	 5.2%
 Fair value per option	 24p

Expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero coupon UK government bonds of a term consistent with the assumed option life. A reconciliation of option movements for the year to 31 December 2006 is set out below.

	2006 Number '000	2006 Weighted average exercise price	2005 Number '000	2005 Weighted average exercise price
Outstanding at 1 January	307,250	175.5p	375,250	169.9p
Forfeited	(32,500)	173.2p	—	—
Exercised	(40,000)	158.5p	(68,000)	145.0p
 Outstanding at 31 December	234,750	178.7p	307,250	175.5p
 Exercisable at 31 December	134,750	156.9p	197,250	157.3p

There were no share options granted during the year.

24 Share based payments *(continued)*

	2006 Weighted average exercise price	2006 Number '000	2006 Weighted average remaining life	2006 Weighted average remaining life (expected) (contractual)		2005 Weighted average exercise price	2005 Number '000	2005 Weighted average remaining life (expected)	2005 Weighted average remaining life (contractual)
100p - 149p	118.5p	12,500	0.0	3.3	118.5p	12,500	0.0	4.3	
150p - 199p	160.8p	122,250	0.0	4.6	159.9p	184,750	0.5	5.5	
200p - 250p	208.0p	100,000	2.3	7.3	208.0p	110,000	3.3	8.3	
	=====	=====	=====	=====	=====	=====	=====	=====	=====

The weighted average share price for options exercised in the period was 158.5p (2005: 145.0p). The total charge during the year for employee share based payment plans was £8,000 (2005: £7,000), all of which related to equity settled share based payment transactions. After deferred tax, the total charge was £6,000 (2005: £5,000).

25 Reconciliation of movements in shareholders' funds

	2006 £'000	2005 (as restated – note 28) £'000
Profit for the year	4,088	2,678
Ordinary dividends	(1,217)	(1,194)
New share capital issued	63	99
Share based payment charge	8	7
Net exchange adjustments	(10)	7
Actuarial gain on defined benefit pension scheme less related deferred tax	777	736
Net addition to shareholders' funds	3,709	2,333
Opening shareholders' funds	22,446	20,113
Closing shareholders' funds	26,155	22,446

Notes to the Financial Statements

for the year ended 31 December 2006

26 Analysis of changes in financing during the year

	2006		2005	
	Share capital (including share premium) £'000	Loans and finance lease obligations £'000	Share capital (including share premium) £'000	Loans and finance lease obligations £'000
At 1 January	3,293	38	3,194	–
Shares issued net of expenses	63	–	99	–
Cash outflow from financing	–	(22)	–	(6)
New finance leases	–	–	–	44
At 31 December	3,356	16	3,293	38

27 Financial instruments

Interest rate risk of financial assets and liabilities		2006 £'000	2005 £'000
Variable rate assets:	Sterling	6,306	2,156
	US Dollar	187	305
	Euro	200	165
	Other	14	3
Variable rate liabilities:	US Dollar	(297)	–
Net variable rate assets		6,410	2,629
Fixed rate liabilities	Sterling	(16)	(38)
		6,394	2,591

A right of set off exists between variable rate assets and liabilities.

The Group's variable rate financial liabilities attract interest charges based on the Lloyds TSB plc base lending rate.

The Group's variable rate sterling and foreign currency assets are comprised entirely of cash and bank deposits. Interest rates on bank deposits are based on the appropriate Lloyds TSB plc base rate. During the year short term deposits were made for periods between 1 and 11 days and earned interest at rates between 2.7% and 4.8%.

The numerical disclosures above do not include details regarding short-term debtors and creditors as permitted by Financial Reporting Standard 13 "Derivatives and other financial instruments".

Fixed rate liabilities mature over the period shown in note 19.

27 Financial instruments *(continued)*

Borrowing facilities

The Group has undrawn committed borrowing facilities of £5,000,000 expiring within one year. These facilities are subject to an annual review.

Fair value of financial assets and liabilities

There is no difference between the fair value of financial assets and liabilities and their book value except as noted within "Hedges".

Currency exposures

The table below shows the extent to which the Group has monetary assets and liabilities other than sterling. Foreign exchange differences on retranslation of these net assets and liabilities are taken to the Group's profit and loss account.

	2006 £'000	2005 £'000
Currency:		
US Dollar	166	437
Euro	1,237	1,202
Other currencies	14	3
	<hr/>	<hr/>
	1,417	1,642
	<hr/>	<hr/>

These monetary assets and liabilities may be analysed as follows:

Debtors (note 16)	2,357	2,044
Financial assets and liabilities (above)	104	473
Creditors due within one year (note 18)	(1,044)	(875)
	<hr/>	<hr/>
	1,417	1,642
	<hr/>	<hr/>

Hedges

As explained in the Directors' Report on page 18, the Group's policy is to hedge the currency risks to which it is exposed using forward option contracts.

At 31 December 2006, the Group had losses of £102,000 (2005: gains of £111,000) on forward option contracts which had been recognised in the profit and loss account and gains of £nil (2005: £nil) on forward option contracts which had not been recognised in the profit and loss account as they relate to transactions which will be completed in future years. All the gains and losses on hedging instruments are expected to be matched by gains and losses on the hedged transactions.

Notes to the Financial Statements

for the year ended 31 December 2006

28 Reserves

	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000
Group				
At 1 January 2006 as previously reported	2,207	1,287	253	17,613
Prior year adjustment FRS 20	–	–	13	(13)
	2,207	1,287	266	17,600
Premium on allotment during the year	59	–	–	–
Net exchange adjustments	–	–	–	(10)
Actuarial gain on defined benefit pension scheme net of deferred tax	–	–	–	777
Share based payment charge for the year	–	–	8	–
Transfer from revaluation reserve to profit and loss account	–	(12)	–	12
Retained profit for the year	–	–	–	2,871
	2,266	1,275	274	21,250
At 31 December 2006				
Churchill China plc and subsidiaries	2,266	1,275	274	19,862
Associate	–	–	–	1,388
	2,266	1,275	274	21,250
At 31 December 2005	2,207	1,287	266	17,600

Cumulative goodwill relating to acquisitions made prior to 2006 which has been eliminated against reserves amounts to £31,000 (2005: £31,000). This goodwill will be credited against any disposal of the acquired businesses.

The profit and loss reserve is shown after a charge for £2,764,000 (2005: £6,464,000) in respect of pension liability in relation to the Group's defined benefit pension scheme.

Prior year adjustment and impact of new standards

The adoption of FRS 20 "Share Based Payments" has resulted in an increase in staff costs of £8,000 (2005: £7,000).

	Share premium account £'000	Profit and loss account £'000
Company		
At 1 January 2006 as previously reported	2,207	14,066
Prior year adjustment FRS 20	–	(13)
	2,207	14,053
At 1 January 2006 as restated	59	–
Premium on allotment during the year	–	(7)
Less dividends	–	(1,217)
	2,266	12,829
At 31 December 2006		

29 Financial commitments

Capital commitments

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Capital expenditure contracted but not provided for	315	273	-	-

Operating lease commitments

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

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Annual commitments under non-cancellable operating leases expiring within two to five years	141	224	-	-

30 Company profit and loss account

As permitted by Section 230 of the Companies Act 1985, the holding company's profit and loss account has not been included in these financial statements. The profit for the year, after dividends and other distributions received from subsidiary Companies, is made up as follows:

	2006 £'000	2005 £'000
Holding company's (loss)/profit on ordinary activities for the financial year before tax	(7)	75

31 Related party transactions

Details of related party transactions are shown in the Directors' Report and in the Notes to the financial statements appropriate to the type of transaction being dealt with (see note 14).

The Group has taken advantage of the exemption under FRS 8 allowing details of related party transactions with subsidiary companies not to be disclosed.

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

Five Year Financial Record

	2002	2003	2004	2005 (as restated – note 28)	2006
	£'000	£'000	£'000	£'000	£'000
Turnover	50,904	49,474	48,972	46,399	47,757
Operating profit before exceptional items	1,971	2,727	3,220	2,696	2,777
Share of operating profit/(loss) of associate net of impairment	30	29	100	(21)	5
Net interest receivable and similar income	42	27	74	75	241
Other financing income/(costs)	–	–	(118)	(189)	64
Profit on ordinary activities before profit on disposal of fixed asset and exceptional items	2,043	2,783	3,276	2,561	3,087
Exceptional items	(338)	(1,639)	(866)	–	784
Profit on disposal of fixed assets	75	18	19	269	1,876
Profit before taxation	1,780	1,162	2,429	2,830	5,747
Taxation charge	(352)	(553)	(703)	(152)	(1,659)
Profit after taxation	1,428	609	1,726	2,678	4,088
Dividends	(959)	(1,070)	(1,117)	(1,194)	(1,217)
Retained profit/(loss)	469	(461)	609	1,484	2,871
Net assets employed	27,827	26,723	20,113	22,446	26,155
Ratios					
Operating margin before exceptional items	3.9%	5.5%	6.6%	5.8%	5.8%
Basic earnings per share (pence)	13.4	5.7	16.0	24.7	37.6
Adjusted earnings per share (pence)	15.0	18.2	21.5	17.6	20.4

The adjusted earnings per share is based on the profit on ordinary activities after taxation and adjusted to take into account exceptional items, profit on disposal of fixed assets and the recognition of related deferred tax assets.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Churchill China plc will be held at Marlborough Pottery, High Street, Sandyford, Tunstall, Stoke-on-Trent on Wednesday 16 May 2007 at 12.00 noon for the following purposes:

Ordinary Business

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

1. That the reports of the Directors and the Auditors and the Financial Statements for the year ended 31 December 2006 be received.
2. That, as recommended by the Directors, a final dividend of 8.1p on each ordinary share for the year ended 31 December 2006 be declared.
3. That D J S Taylor be re-elected as a Director.
4. That D M O'Connor be re-elected as a Director.
5. That I T Hicks be re-elected as a Director.
6. That the Auditors, PricewaterhouseCoopers LLP, be re-appointed and that the Directors be authorised to fix their remuneration for the year ending 31 December 2007.
7. That the Directors' Remuneration Report for the year ended 31 December 2006 be approved.

Special Business

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

8. That the Directors of the Company be empowered pursuant to Section 95(1) of the Companies Act 1985 ("the Act") to allot equity securities (as defined in Section 94(2) of the Act) pursuant to the authority under Section 80 of the Act granted by resolution of the Company passed on 14 May 2003, and/or to sell relevant shares (as defined in Section 94(5) of the Act) of the Company if, immediately before such sale, such shares were held by the Company as treasury shares (within the meaning of Section 162A(3) of the Act), as if Section 89(1) of the Act did not apply to such allotment or sale, provided that this power shall be limited to:-
 - (a) the allotment of equity securities and/or sale of relevant shares in connection with a rights issue (which for this purpose shall mean an offer of equity securities open for acceptance for a period fixed by the Directors in favour of the holders of ordinary shares on the register on a fixed record date where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, but subject to such exclusions or arrangements as the Directors may deem necessary or desirable to deal with fractional entitlements otherwise arising or legal or practical problems under the laws of, or the regulations or requirements of any regulatory body or authority or stock exchange in, any territory); and
 - (b) the allotment of equity securities and/or sale of relevant shares (otherwise than as mentioned in sub-paragraph (a) of this resolution) up to an aggregate nominal amount of £54,510;

and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (or, if earlier, on 15 August 2008) and provided that the Company may make any offer or agreement before the expiry of this power which would or might require equity securities to be allotted pursuant thereto after it has expired.

9. That, in accordance with Chapter VII of Part V of the Act, the Company be generally and unconditionally authorised for the purposes of Section 166 of the Act to make market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 10p each in the capital of the Company ("Ordinary Shares") on such terms and in such manner as the Directors of the Company may from time to time determine, provided that:
 - (a) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 1,090,212 representing approximately 10 per cent of the present issued share capital of the Company;

Notice of Annual General Meeting

- (b) the minimum price which may be paid for an Ordinary Share, exclusive of all expenses, shall be 10p;
- (c) the maximum price which may be paid for an Ordinary Share, exclusive of all expenses, shall not be more than 5 per cent above the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which such Ordinary Share is purchased

and, unless previously renewed, varied or revoked by special resolution of the Company in general meeting, the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting after the passing of the resolution (or, if earlier, on 15 August 2008). The Company may prior to the expiry of the authority hereby conferred make a contract or contracts to purchase Ordinary Shares under such authority which will or may be executed wholly or partly after the expiry of such authority. Any Ordinary Shares purchased under the authority hereby conferred will be either cancelled immediately upon completion of the purchase or held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Act.

By order of the Board

D J S Taylor
Company Secretary

Registered Office
Marlborough Pottery
High Street
Tunstall
Stoke-on-Trent
ST6 5NZ

Registered Number
2709505

Dated 18 April 2007

Explanatory Notes

1. A member entitled to vote at this Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not also be a member. A form of proxy for the use of members is enclosed and the attention of the members is drawn to the notes thereon. The appointment of a proxy will not preclude a member from attending at the Meeting and voting thereat in person.
2. There will be available at the Registered Office of the Company during business hours on any weekday (excluding Saturdays and public holidays) from the date of this Notice until the conclusion of the Annual General Meeting, and at Marlborough Pottery, High Street, Sandyford, Tunstall, Stoke-on-Trent from 9.15 a.m. until the conclusion of the Annual General Meeting, the register of Directors' interests and copies of all service contracts of the Directors of the Company having an unexpired term of at least 12 months.
3. Item 8 in the notice of Annual General Meeting is a special resolution to empower the Directors at any time prior to 15 August 2008 (or, if earlier, the conclusion of the 2008 Annual General Meeting) to allot equity securities (or sell relevant shares out of treasury) for cash without pre-emption up to an aggregate nominal value of £54,510 (equivalent to 545,100 ordinary shares, representing approximately 5 per cent of the present issued share capital). This resolution will also empower the Directors (within the period mentioned above) to allot pursuant to the authority under section 80 of the Companies Act 1985 which was granted at the 2003 Annual General Meeting up to 3,397,874 ordinary shares (representing approximately 31.2 per cent of the present issued share capital) in connection with a rights or similar issue with such modifications as they may consider necessary or desirable to deal with fractions or legal or practical problems.
4. Item 9 in the notice of Annual General Meeting is a special resolution to allow the Company at any time prior to 15 August 2008 (or, if earlier, the conclusion of the 2008 Annual General Meeting) to repurchase up to 1,090,212 ordinary shares (representing approximately 10 per cent of the present issued share capital). The Directors undertake that the authority conferred by this resolution, if approved, will only be used if to do so would result in an increase in earnings per share and be in the best interests of shareholders generally.
5. In accordance with Regulation 41(1) of the Uncertificated Securities Regulations 2001 the Company specifies that only those shareholders who are registered in the Company's register of members at 12 noon on 14 May 2007 (or, in the case of adjournment, 48 hours before the time of the adjourned meeting) will be entitled to attend or vote at the Meeting and that the number of votes which any such shareholder may cast, upon a poll, will be determined by reference to the number of shares registered in such shareholder's name at that time.

Shareholders' Notes

Shareholders' Notes

Financial Calendar

Financial Year End	31 December
Preliminary Announcement	March
Annual Report	April
Annual General Meeting & Final Dividend	May
Interim Announcement	August
Interim Dividend	October



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