CHURCHiLL
China plc

Annual Report 2007

CHURCHILL

Contents

Front cover: Alchemy 'Energy'
Inside cover: Alchemy 'Coast'

CHURCHILL

Financial Highlights

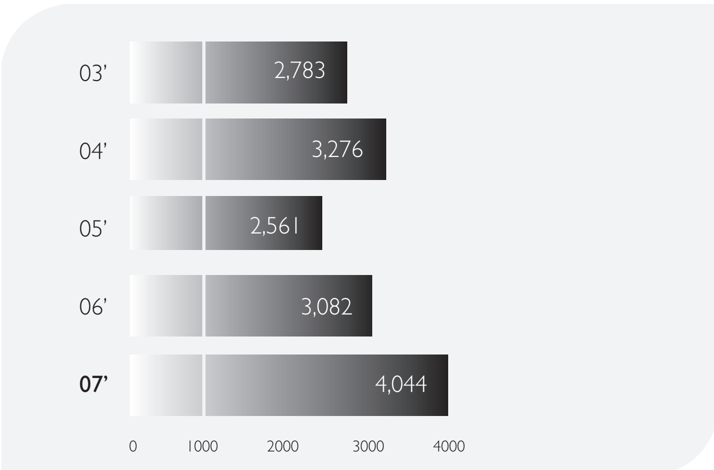
	Before exceptional items 2007 £'000	Exceptional items 2007 £'000	Total 2007 £'000	Before exceptional items as restated (note 29) 2006 £'000	Exceptional items 2006 £'000	Total as restated (note 29) 2006 £'000
Results						
Turnover - continuing operations	**46,930**	**–**	**46,930**	45,930	–	45,930
Operating profit - continuing operations	**3,230**	**798**	**4,028**	2,795	2,660	5,455
Share of results of associate company	**120**	**–**	**120**	(7)	–	(7)
Net finance income	**694**	**–**	**694**	294	–	294
Profit before income tax	**4,044**	**798**	**4,842**	3,082	2,660	5,742
Dividends paid			**1,375**			1,217
Key Ratios						
Operating margin before exceptional items			**6.9%**			6.1%
Operating margin after exceptional items			**8.6%**			11.9%
Basic earnings per share			**33.8p**			37.7p
Adjusted earnings per share			**26.5p**			20.5p
Diluted basic earnings per share			**33.6p**			37.7p
Diluted adjusted earnings per share			**26.3p**			20.5p
Dividends paid per share			**12.6p**			11.2p

The 2006 comparative numbers have been restated to reflect the adoption of IFRS.

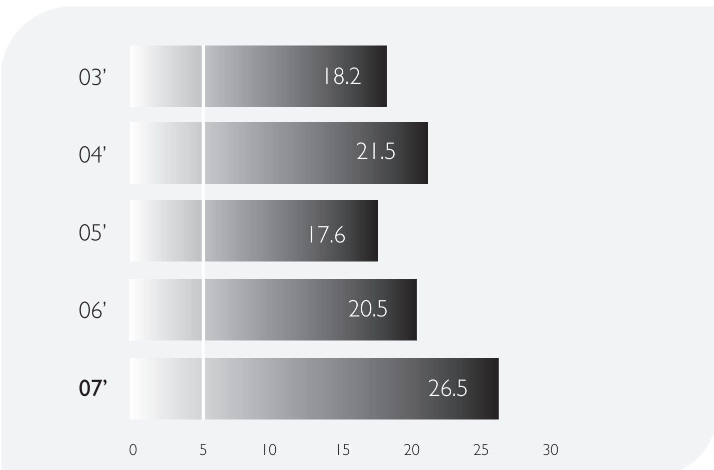
The adjusted EPS excludes exceptional items. (See note 11)

5 Year Performance

Turnover (£m)



Profit before profit on disposal of fixed assets, exceptional items and recognition of deferred tax asset (£000)



Adjusted earnings per share (p)

Right: Alchemy 'Balance Buffet'

CHURCHILL

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

NON-EXECUTIVE DIRECTORS

J N E Sparey *•

R S Kettel *•

J W Morgan *•

SECRETARY AND REGISTERED OFFICE

D J S Taylor ACA

Marlborough Pottery

High Street

Tunstall

Stoke-on-Trent

Staffordshire

ST6 5NZ

AUDITORS

PricewaterhouseCoopers LLP

Cornwall Court

Cornwall Street

Birmingham

B3 2DT

SOLICITORS

Addleshaw Goddard

100 Barbirolli Square

Manchester

M2 3AB

STOCKBROKERS AND ADVISERS

Brewin Dolphin

Investment Banking

34 Lisbon Street

Leeds

LS1 4LX

BANKERS

Lloyds TSB plc

41 Market Street

Longton

Stoke-on-Trent

Staffordshire

ST3 1BN

REGISTRARS

Equiniti

Aspect House

Spencer Road

Lancing

West Sussex

BN99 6ZX

* Member of audit committee

• Member of remuneration committee

Registered no: 2709505

Left: Churchill Super Vitrified 'Orbit'
Below Right: Alchemy 'Energy'

"2007 proved to be an excellent year for Churchill."

Chairman's Statement

"Strong balance sheet and robust business plan"

I am delighted to report that 2007 proved to be an excellent year for Churchill, exceeding our expectations, with strong growth in profitability, exceptionally strong cash flows and encouraging activity levels in both our hospitality and retail businesses. This result reflects the successful implementation of key strategies to deliver attractive product ranges backed by specific new product development, high service levels and tight management of our cost base. This was against a backdrop of healthy customer demand in a number of geographical markets especially in the UK.

CHURCHiLL

Financial Review

Group revenues rose by £1.0m to £46.9m (2006: £45.9m) reflecting good growth in many key Hospitality accounts adjusted by lower levels of retail contract business and higher rebates to certain customers.

Group operating profit before exceptional items increased by 15% to £3.2m (2006: £2.8m) and our profit before exceptional items and taxation improved by over 30% to £4.0m (2006: £3.1m).

The results also include an exceptional profit of £0.8m relating to the disposal of surplus land at Marlborough in December 2007. In 2006, net exceptional profits totalled £2.7m. Profit after exceptional items, but before taxation, was £4.8m (2006: £5.7m).

Adjusted earnings per share have increased by 30% to 26.5p (2006: 20.5p). Basic earnings per share, including exceptional items, were 33.8p (2006: 37.7p).

Overall cash balances rose by £5.0m to £11.4m (2006 £6.4m) and accounted for over one third of year end net assets of £29.7m.

Dividend

In the light of the strong overall performance of the business the Board is pleased to recommend a 13% increase in the final dividend to 9.2p per share. Together with the increased interim dividend paid in October this gives a total dividend declared in respect of 2007 of 13.7p an increase of 14% on the corresponding figure for 2006. We will continue to manage our dividend policy to deliver progressive, long term, shareholder value creation. In 2007 taking into account capital growth and uplifted dividends, our Total Return to Shareholders in the year was 25%, in line with the average achieved over the last five years.

Accounting Policies

These are the Group's first results to be presented under IFRS and comparative figures have been restated to reflect these changes. There has been no significant impact on reported profit figures from the adoption of IFRS. The major impact on our balance sheet has been the requirement to provide for deferred taxation on previous revaluation gains.

Revenue figures have also been restated, without any impact on profit, to reflect a change in the classification of certain rebates given to customers. The rebates, which were previously treated as costs, are now accounted for as a reduction from disclosed revenues.

Full details of the effect of the above changes on the Group's financial statements are shown later in this report in "Transition statements".

Above Left: Churchill Super Vitrified 'Infinity'
Above Centre: Alchemy 'Ambience'
Above Right: Alchemy 'White'
Right: Sanderson 'Etchings & Roses'

"We will continue to manage our dividend policy to deliver progressive, long term, shareholder value."

"Churchill consolidated its position as market leader in the UK."

Left: Alchemy
'Buffet' & 'Buffet Covers'

Operational Review

Hospitality

Revenues from the sale of Churchill Super Vitrified and Alchemy Fine China dinnerware increased by 10% to £28.6m (2006: £26.0m).

Churchill consolidated its position as the market leader in the UK as domestic sales increas ed by 17% to almost £19m, benefiting from our strategy of innovative NPD and close end user collaboration. The introduction of non smoking legislation boosted our sales, particularly in the first half of 2007, to the pub sector as many clients sought to increase their food revenues with a superior tabletop offering.

Churchill now has broad and clear differentiation of its product offering to all segments of the growing dining out market. Our end users and distribution partners place high value on Churchill's brand values characterised by good design, exemplary service and outstanding product performance in use.

Sales to Europe improved by 7% to £6.2m whilst sales in the USA where we are relatively underweight declined by 5% to £1.9m but yielded better margins. Whilst export sales growth tends to be more fragmented the same core brand values of design, product performance and service remain important to our growing customer base. We have increased our marketing manpower and coverage in selected export markets to sustain our growth plans.

Manufacturing and Technical

Demand for Churchill super vitrified and our prestige fine china Alchemy was above our expectations. In response we increased production volumes and succeeded in maintaining and indeed improving service levels to our distributors and end users.

Effective use of available kiln capacity restricted the increase in gas and electricity costs in 2007 to £400k.

As the ceramic industry in Staffordshire has declined we are increasingly mindful of the need to retain skill levels of both management and operatives and have instituted a number of initiatives to safeguard our long term position. Set against external trends Churchill continues to invest in quality people and new working methodologies to maintain and develop our technical excellence in ceramic dinnerware production.

Capital Expenditure

In 2007 we initiated the first in a series of capital investments designed to increase our manufacturing capacity to develop and produce more complex new product groups. This will enable us to deliver a more efficient and cost effective service to our customers in both divisions.

We have invested substantially in the latest manufacturing technologies. Working closely with executive chefs has led us to the development of ever more complicated and innovative shapes for our prestige restaurant, hotel and catering customers. We will continue to make further investment in this area.

During 2008 we will complete the transfer of all manufacture of Alchemy fine china items to the main Marlborough site. Cost benefits generated from operating on one site will start to feed through to the bottom line towards the end of 2008. The total cost of these projects, including an energy efficient kiln and expanded state of the art logistics facilities, is approximately £6m. These investments are expected to substantially improve our core operating platform for the future.

Retail

Revenues from the sale of Queens and Churchill retail products, which are all sourced from outside the UK, was £18.3m (2006: £19.9m) with the decline being entirely due to a planned withdrawal from low contribution business. This resulted in an improved net contribution before central costs compared to last year.

It is pleasing to record our plans to gradually increase margins in our retail activities are being delivered and further progress is expected this year. Our key objective remains to increase margins, principally by expanding our middle market "Queens" business to department stores and independents.

Supply to UK volume channel customers can be by both full service and direct ship basis for Churchill branded and bespoke product. Most export customers opt to buy on a direct ship basis in which case containers are shipped direct from the country of supply.

A core element of our approach has been to develop licence partnerships with other companies including Disney, Sanderson and Cath Kidston. These highly respected businesses are attracted to Churchill by our ability to transform brand and design expertise into sales of mugs and dinnerware on an international stage. Churchill has the capability and reputation to deliver the guarantees and technical security our customers require.

We achieved our internal benchmarks for 2007 in terms of margin, sales mix, control of working capital and cost management and are optimistic of further development this year.

Outsourcing

Chinese cost and wage inflation has been well documented since we last reported. Manufacturers have been affected by the weakness of the US$ against the RMB, the withdrawal of Chinese government export subsidies and the dramatic increases in global energy and raw material costs. We also source product to our own specifications from a range of markets in Asia, Europe and Latin America where producer price inflation is only a couple of percentage points behind China in US$ terms. However, the effect on our net revenue is broadly neutral. We have matched price increases to direct ship customers in line with cost increases.

We have aimed to differentiate our approach to the market from that of pure trading companies. Churchill can provide both suppliers and customers with a high level of technical expertise and depth of understanding of all ceramic related issues. Teams from both our Shanghai office and the UK are responsible for quality, shipping, order processing and fulfilment. The consumer expects to be able to purchase safe ceramics manufactured in ethically sound sources. Compliance with all international Health and Safety legislation is in itself not enough, all our products have to perform well in use.

Above Far Left: Churchill 'Recline'
Above Centre Left: Sanderson 'Etchings & Roses'
Above Centre Right: Cath Kidston 'Strawberry Breakfast Set'
Above Far Right: Disney 'Mickey Collage Breakfast Set'
Right: Sanderson 'Maia'

"Our key objective remains to increase margins."

People

We are keen to ensure that our people are well motivated and feel valued, whether in Stoke on Trent, Shanghai or Chicago. Our business has been built on the experience, knowledge base and skills of our talented team. We are keen to augment these qualities through training and development at all levels from NVQ's, Health and Safety, to MBA's and beyond. In addition to an experienced workforce we are very fortunate to have a highly professional operational management team and they have delivered an excellent result in 2007. The Board is very grateful to everyone in the business who made these results possible.

Left: Alchemy 'Ambience'
Top Right: Alchemy 'Atlantic'
Left: Churchill Super Vitrified 'Nova'
Above Centre: Churchill 'Recline'
Right: Alchemy 'Counterwave'

Prospects

Despite the economic downturn in the UK and USA we believe that with a strong balance sheet and robust business plan, Churchill is capable of achieving its objectives for the full year.

Demand has been weaker in the first quarter of 2008 when compared to the corresponding period of 2007 which was characterised by a number of significant installation sales to the Hospitality sector, although repeat sales to established customers are performing to expectations. As a result it is unlikely that gross revenue and profits for the first half of 2008 will reach the exceptional levels achieved last year.

We have several opportunities to grow our revenues across a number of markets in both our businesses. We are actively pursuing projects aimed at increasing near term sales and broadening both our distribution and product range.

Directors' Report

for the year ended 31 December 2007

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2007.

Principal activities, operating and financial review

The Company is a public limited company listed on the Alternative Investment Market (AIM) and is incorporated and domiciled in the UK. The registered office is disclosed at the front of these accounts and the Company number is 2709505.

The consolidated income statement for the year is set out on page 33.

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 15.

Dividends

The Directors have paid the following dividends in respect of the years ended 31 December 2007 and 31 December 2006:

	2007	2006
	£'000	£'000
Ordinary dividend:		
Final dividend 2006 8.1p (2005: 7.3p) per 10p ordinary share	**883**	793
Interim dividend 2007 4.5p (2006: 3.9p) per 10p ordinary share	**492**	424
	1,375	1,217

The Directors now recommend payment of the following dividend:

	2007	2006
	£'000	£'000
Ordinary dividend:		
Final dividend 2007 9.2p (2006: 8.1p) per 10p ordinary share	**1,007**	883

International Financial Reporting Standards (IFRS)

The consolidated financial statements have been prepared for the first time under IFRS adopted for use in the European Union. Comparative figures for the year to 31 December 2006 have been restated to reflect the differences between IFRS and UK Generally Accepted Accounting Practice (UK GAAP). The effects of these changes and an explanation of the main impacts on the accounts are shown in note 29.

Directors

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

J N E Sparey *	R N Grundy	
A D Roper	I T Hicks	
D J S Taylor	J W Morgan*	(appointed 16 May 2007)
D M O'Connor	E S Roper*	(retired 16 May 2007)
R S Kettel *		

* Non executive

The Directors retiring by rotation are A D Roper and R S Kettel who being eligible, offer themselves for re-election. The unexpired terms of the service contracts of A D Roper and R S Kettel are twelve and thirteen months respectively. J W Morgan was appointed as a Director of the Company on 16 May 2007 and in accordance with the Company's articles, retires at the next Annual General Meeting. The unexpired term of J W Morgan's service contract is thirteen months.

Directors *(continued)*

The biographical details of the Directors are as follows:

Jonathan Sparey, non executive Chairman, aged 50, is a senior partner in L.E.K. Consulting LLP, 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.

Andrew Roper FCA, Chief Executive Officer, aged 59, has worked for the Company since 1973. He has responsibility for the development of Group strategy and for operational performance and development. He was appointed to his present role in 2007 following on from his role as Group Managing Director since 1998.

David Taylor, Finance Director and Company Secretary, aged 48, has worked for the Group for 16 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 64, 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 51, has worked for Churchill for 17 years in a number of production, operations and marketing roles. He has extensive experience within the Ceramics industry and joined the Board in 1999.

Ralph Grundy, Managing Director: Hospitality products, aged 47, 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 38, 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.

Jonathan Morgan, Non Executive Director, aged 50, acts in an advisory role with a number of investment companies. He was formerly Managing Director of Prudential plc’s Private Equity business. He joined the Board in 2007.

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 64% of our gross revenue, we also enjoy significant sales to Europe and North America which respectively account for 19% and 10% 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. The impact on Retail market distribution channels of large retailers appears to have stabilised with some evidence of growth in middle market channels.

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. The strong growth in UK hospitality markets prior to the introduction of the smoking ban has now reduced and there has been a general tightening of demand, particularly in the UK and North American markets as consumer confidence has reduced.

The cost of imported product has risen during the year following changes to export subsidies to Chinese manufacturers, commodity and labour price inflation in a number of markets and the depreciation of the US dollar. 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 in terms of performance, shape and surface design. Our target markets require product that is aesthetically 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 that are given sufficient freedom to anticipate market trends and requirements and 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 also 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. We continue to invest in customer service.

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, along with customer feedback.

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 long term demand for hospitality products in developed markets will continue to increase as leisure related spending grows. There has been a significant expansion in eating out in the UK and 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 yet 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. In the short term, economic uncertainty may affect the rate of growth of our core markets and this will be reflected in our approach to these markets. 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 appears there is now some degree of price stability and opportunities exist to develop business in more profitable sections of the marketplace.

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 option 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. 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.

Directors' Report

(continued)

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 2007: £46.9m (2006: £45.9m)

Sales growth 2007: 2.2% (2006: 3.0%)

Overall sales levels have increased.

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 2007: £6.6m (2006: £6.9m)

The level of stock and work in progress is considered reasonable.

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 2007: £3.2m (2006: £2.8m)

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 2007: £4.0m (2006: £3.1m)

Profit before tax and exceptional items increased in 2007 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 2007: £3.2m (2006: £2.8m).

Operating cash generation before additional pension contribution 2007: £6.3m (2006: £5.7m).

In both of the years under review operating cash generation was significantly in excess of operating profit, principally due to the strong working capital controls in place in these 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. The Group has instituted a programme designed to gain accreditation under ISO 14001 “Environmental Management”, the international standard for environmental operation.

Financing

The Group currently uses short term variable rate financing arrangements to provide finance for working capital requirements.

Financial instruments

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

The risk management policy adopted is to regularly review forward foreign currency cash flows, identifying the currency effect of completed sale and purchase transactions, transactions which have been contracted for but not completed and an assessment of expected likely forward cash flows. The net currency exposure arising from this review is then managed using forward option contracts. 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 returns on short term cash deposits and borrowings.

Note 2 to the accounts includes financial risk considerations.

Directors' Report

(continued)

Land and buildings

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

Substantial shareholdings

The Directors have been advised of the following individual interests, or Group of interests, other than those dealt with in the summary of Directors interests in the Report of the Remuneration Committee, held by persons acting together, which at 21 March 2008 exceeded 3% of the Company's issued share capital:

Shareholder	**Number of ordinary shares**	**Percentage**
Landfinance Limited	1,104,000	10.1%
S Baker	1,000,000	9.1%
J A Roper	1,000,000	9.1%
E S Roper	968,045	8.8%
M J & G Roper	721,880	6.6%
Discretionary Unit Trust	550,000	5.0%
Henderson Global Investors	440,000	4.0%

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 2007 was 28 days (2006: 23 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 (2006: £nil) and £8,076 (2006: £3,640) respectively. In addition to the above the Group regularly donates quantities of product to charitable causes. The estimated value of these donations in 2007 was £9,000 (2006: £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.

The more significant donations within the £8,076 were £1,062 to TCT Remembering Emily, £1,000 to S Africa Charity, £2,500 to Mel Robins Charity, £894 to the Cream Team Charity event, £785 to The North Staffs Charity and £500 to British Red Cross (2006: £1,000 was a donation to W Weaver, £750 to NSPCC and £500 each to Sage and University Hospital fund). The remaining contributions were in line with the Group's policy in respect of charitable donations is to support local charities and institutions, particularly in relation to education and sport and generally relate to sponsorship of individuals or local sports events.

Statement of Directors' responsibilities in respect of the Annual Report, the Directors' Remuneration Report and the financial statements

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent Company financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). In preparing the Group financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). The Group and parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by the IASB, and with regard to the parent Company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statement; and
- prepare the Group and parent Company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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 to enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the parent Company financial statements and the Directors' Remuneration Report 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 Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

31 March 2008

Report of the Remuneration Committee

for the year ended 31 December 2007

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.

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, J N E Sparey and J W Morgan, 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 £**
2007						
Executive						
A D Roper	223,200	38,700	812	**262,712**	–	**262,712**
D J S Taylor	152,408	35,100	13,906	**201,414**	10,669	**212,083**
D M O'Connor	152,333	35,100	17,440	**204,873**	10,663	**215,536**
R N Grundy	152,333	40,100	17,507	**209,940**	10,663	**220,603**
I T Hicks	106,742	23,625	9,509	**139,876**	7,122	**146,998**
Non executive						
J N E Sparey	48,000	–	–	**48,000**	–	**48,000**
E S Roper	21,667	–	812	**22,479**	–	**22,479**
R S Kettel	33,333	–	–	**33,333**	–	**33,333**
J W Morgan	22,666	–	–	**22,666**	–	**22,666**
	912,682	172,625	59,986	**1,145,293**	39,117	**1,184,410**
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**
	743,988	34,500	51,493	**829,981**	32,007	**861,988**

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.

Benefits in kind include the provision of car benefits, fuel benefits and medical insurance applicable to all Executive Directors.
No Director waived emoluments in respect of the years ended 31 December 2007 and 2006.

Report of the Remuneration Committee

(continued)

Directors' emoluments *(continued)*

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.

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 2007**	Number of options 31 December 2006	Exercise Price pence	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	**2,000**	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 2006	Apr 2012
Unapproved Executive scheme	30.04.04	**10,000**	10,000	208	Apr 2007	Apr 2014
		55,000	62,500			
D M O'Connor						
Executive scheme	5.12.00	–	2,250	151	Dec 2003	Dec 2010
Unapproved Executive scheme	19.04.02	**10,000**	15,000	171	Apr 2006	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
		20,000	27,250			

Share options *(continued)*

	Date of grant	**Number of options 31 December 2007**	Number of options 31 December 2006 or at date of appointment	Exercise Price pence	Date from which exercisable	Expiry date
R N Grundy						
Unapproved Executive scheme	5.12.00	**–**	20,500	151	Dec 2003	Dec 2010
Unapproved Executive scheme	19.04.02	**13,000**	15,000	171	Apr 2006	Apr 2012
Unapproved Executive scheme	30.04.04	**10,000**	10,000	208	Apr 2007	Apr 2014
		23,000	45,500			
I T Hicks						
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	10,000			

On 18 April 2007 D J S Taylor exercised 7,500 share options granted under the Executive Share Option Scheme at an exercise price of 151p, D M O'Connor exercised 2,250 share options granted under the Executive Share Option scheme at an exercise price of 151p and 5,000 share options granted under the Unapproved Executive Share Option Scheme at an exercise price of 171p and, R N Grundy exercised 20,500 share options granted under the Unapproved Executive Share Option scheme at an exercise price of 151p. The market price at the date of exercise was 275p.

On 7 September 2007 RN Grundy exercised 2,000 share options granted under the Unapproved Executive Share Option Scheme at an exercise price of 171p. The market price at the date of exercise was 327.5p.

Share options are granted to Directors in accordance with the terms of reference of the Remuneration Committee (see page 22) to provide encouragement to enhance Group performance in the long term and having regard to each employees 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.

Report of the Remuneration Committee

(continued)

Phantom Share Scheme

Details of shares options granted under the Phantom Share Scheme are as follows:

	Date of grant	**Number of phantom Shares**	Base value Pence	Cap value Pence	Date from which exercisable	Expiry date
D J S Taylor	19.12.07	15,000	300	550	Dec 2010	Dec 2012
D J S Taylor	19.12.07	15,000	300	700	Dec 2011	Dec 2012
D M O'Connor	19.12.07	15,000	300	550	Dec 2010	Dec 2012
D M O'Connor	19.12.07	15,000	300	700	Dec 2011	Dec 2012
R N Grundy	19.12.07	15,000	300	550	Dec 2010	Dec 2012
R N Grundy	19.12.07	15,000	300	700	Dec 2011	Dec 2012
I T Hicks	19.12.07	15,000	300	550	Dec 2010	Dec 2012
I T Hicks	19.12.07	15,000	300	700	Dec 2011	Dec 2012

The above options are only exercisable subject to the satisfaction of performance criteria in relation to a 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 2% per annum above the Retail Price Index over the 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 307.5p (2006: 255p). The range of prices for the year to 31 December 2007 was 245p to 342p (2006: 179p to 273p) 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:

	2007 £	2006 £
D J S Taylor	**9,300**	–
D M O'Connor	**7,990**	9,000
R N Grundy	**28,550**	11,400
I T Hicks	**–**	7,500
	45,840	27,900

Pensions

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

The method of provision of pension benefits to Directors changed during 2006. 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.

Pensions *(continued)*

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

	Increase in benefit over the year (excl inflation) £	**Accrued benefit £**	**Capital value of increase less Directors' contributions £**
A D Roper	–	94,016	–
D J S Taylor	–	25,379	–
D M O'Connor	–	24,929	–
R N Grundy	–	12,142	–
I T Hicks	–	15,084	–
	–	171,550	–

The disclosure above is in accordance with the Listing Rules.

	Increase in benefit over the year (incl inflation) £	**Transfer value at 31 December 2007 £**	Transfer value at 31 December 2006 £	Increase in transfer value less Directors' contributions £
A D Roper	–	1,597,056	1,551,646	45,410
D J S Taylor	–	324,623	308,246	16,377
D M O'Connor	–	246,481	236,247	10,234
R N Grundy	–	115,304	107,534	7,770
I T Hicks	–	95,421	88,419	7,002
	–	**2,378,885**	2,292,092	86,793

The disclosure above is in accordance with the Companies Act 1985.

The accumulated total benefit is the amount of pension that would be paid each year on retirement based on service to 31 December 2007 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.

Report of the Remuneration Committee

(continued)

Pensions *(continued)*

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 are members of the Churchill China 2006 Group Personal Pension Plan. Contributions paid by the Group in respect of this scheme were at a rate of 7% of pensionable salary. Only basic salary is pensionable.

	2007	2006
	£	£
D J S Taylor	**10,669**	7,443
D M O'Connor	**10,663**	7,484
R N Grundy	**10,663**	7,484
I T Hicks	**7,122**	1,663
	39,117	24,074

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. IT 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: R S Kettel 1 May 2007, J N E Sparey 20 March 2007 and J W Morgan 16 May 2007.

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 not audited.

The interests of the Directors and their immediate families and family trusts at 31 December 2007 in the 10p ordinary shares of the Company were as follows:

	2007	2006
A D Roper	**864,930**	862,430
D J S Taylor	**12,000**	10,000
R S Kettel	**25,000**	20,000
D M O'Connor	**5,599**	4,599
J N E Sparey	**29,100**	19,000
R N Grundy	**13,000**	6,500
I T Hicks	**2,500**	1,500
J W Morgan	**8,000**	–
	960,129	924,029

Directors' interests *(continued)*

A D Roper's non-beneficial shareholdings included above at 31 December 2007 were 202,500 (2006: 200,000) 10p ordinary shares, as trustee of various trusts established for the benefit of his children.

A D Roper's interest in the 10p ordinary shares of the Company at 31 December 2007 represented 7.9% (2006: 7.9%) of the Company's issued share capital.

There has been no change in the interests set out above between 31 December 2007 and 31 March 2008.

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 and slightly above that shown by the FTSE Fledgling index. The Group has generally achieved a steady rate of return averaging 25% on a compound basis, although in 2005 returns dropped principally due to lower earnings. Over the five year period total shareholder return from the Company has been 206%, whilst that achieved by the AIM index as a whole was 81% and the FTSE Fledgling 170%. In the year to 31 December 2007 the overall return from the Company was 24%, the AIM index achieved a 1% return and the FTSE Fledgling index -7%.

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

31 March 2008

Corporate Governance

This statement is unaudited
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 2007 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. J N E Sparey, R S Kettel and J W Morgan are all considered to be independent.

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 (until resignation)	5	5
A D Roper	12	11
D J S Taylor	12	12
R S Kettel	12	12
D M O'Connor	12	12
J N E Sparey	12	11
R N Grundy	12	12
I T Hicks	12	12
J W Morgan (since appointment)	8	8

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

There are 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.

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

31 March 2008

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 2007 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expenditure, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement 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 Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent Company 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 have been 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. The other information comprises only the Directors' Report, the Chairman's Statement, the unaudited elements of the Remuneration Report and the Corporate Governance 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.

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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent Company's affairs as at 31 December 2007;
- the Group and parent Company 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

31 March 2008

Consolidated Income Statement

for the year ended 31 December 2007

	Notes	Before exceptional items 2007 £'000	Exceptional items 2007 £'000	Total 2007 £'000	Before exceptional items Restated 2006 £'000	Exceptional items 2006 £'000	Total Restated 2006 £'000
Revenue	4	**46,930**	**–**	**46,930**	45,930	–	45,930
Operating profit before exceptional item	5	**3,230**	**–**	**3,230**	2,795	–	2,795
Exceptional items	5	**–**	**798**	**798**	–	2,660	2,660
Operating profit after exceptional items		**3,230**	**798**	**4,028**	2,795	2,660	5,455
Share of results of associate company	4	**120**	**–**	**120**	(7)	–	(7)
Finance income	8	**730**	**–**	**730**	294	–	294
Finance costs	8	**(36)**	**–**	**(36)**	–	–	–
Profit before income tax		**4,044**	**798**	**4,842**	3,082	2,660	5,742
Income tax expense	10	**(1,147)**	**–**	**(1,147)**	(846)	(785)	(1,631)
Profit after income tax		**2,897**	**798**	**3,695**	2,236	1,875	4,111
Attributable to equity holders of the company				**3,695**			4,111
Earnings per ordinary share	11			**33.8p**			37.7p
Diluted earnings per share	11			**33.6p**			37.7p

Adjusted earnings per share figures excluding the effect of exceptional items are shown in note 11.

All the above figures relate to continuing operations.

The notes on pages 39 to 77 are an integral part of these consolidated financial statements.

The Company has elected to take the exemption under section 230 of the Companies Act 1985 to not present the parent Company profit and loss account. The profit of the parent Company for the year was £66,000 (2006: loss £7,000).

Consolidated Statement of Recognised Income and Expenditure

for the year ended 31 December 2007

	2007	2006 Restated
	£'000	£'000
Net of tax		
Actuarial gain on defined benefit obligations (note 22)	**1,655**	777
Currency translation differences	**3**	(10)
Impact of change in UK tax rate on deferred tax	**26**	–
Net income recognised directly in equity	**1,684**	767
Profit for the year	**3,695**	4,111
Total recognised income for the year	**5,379**	4,878

Attributable to:

Equity holders of the company	**5,379**	4,878

Consolidated Balance Sheet

as at 31 December 2007

	Notes	**2007** **£'000**	2006 Restated £'000
Assets			
Non current assets			
Property, plant and equipment	13	**10,813**	10,693
Intangible assets	14	**34**	35
Investment in associate	15	**814**	797
Available for sale financial assets	17	**–**	22
Deferred income tax assets	21	**318**	1,597
		11,979	13,144
Current assets			
Inventories	18	**6,660**	6,857
Trade and other receivables	19	**9,606**	10,111
Cash and cash equivalents		**11,440**	6,410
		27,706	23,378
Total assets		**39,685**	36,522
Liabilities			
Current liabilities			
Trade and other payables	20	**(7,779)**	(6,177)
Current income tax liabilities		**(493)**	(190)
		(8,272)	(6,367)
Non current liabilities			
Deferred income tax liabilities	21	**(592)**	(554)
Retirement benefit obligations	22	**(1,090)**	(3,948)
Total liabilities		**(9,954)**	(10,869)
Net assets		**29,731**	25,653
Shareholders' equity			
Issued share capital	23	**1,095**	1,090
Share premium account	23	**2,332**	2,266
Other reserves	24	**1,180**	1,157
Retained earnings	25	**25,124**	21,140
Total equity		**29,731**	25,653

The notes on pages 39 to 77 are an integral part of these consolidated financial statements.

The financial statements on pages 33 to 77 were approved by the Board of Directors on 31 March 2008 and were signed on its behalf by:

A D Roper
D J S Taylor
} *Directors*

Company Balance Sheet

as at 31 December 2007

	Notes	2007 £'000	2006 £'000
Fixed assets			
Investment in associate	15	**355**	355
Investments in subsidiaries	16	**2,203**	2,203
Other investments	17	**–**	43
		2,558	2,601
Current assets			
Debtors: amounts falling due after more than one year	19	**11,847**	13,226
Debtors: amounts falling due within one year	19	**124**	119
Cash at bank and in hand		**480**	293
		12,451	13,638
Creditors: amounts falling due within one year	20	**(39)**	(33)
Net current assets		**12,412**	13,605
Total assets less current liabilities		**14,970**	16,206
Net assets		**14,970**	16,206
Capital and reserves			
Called up share capital	23	**1,095**	1,090
Share premium account	23	**2,332**	2,266
Other reserves	24	**24**	21
Profit and loss account	25	**11,519**	12,829
Shareholders' funds		**14,970**	16,206

The notes on pages 39 to 77 are an integral part of these consolidated financial statements.

The financial statements on pages 33 to 77 were approved by the Board of Directors on 31 March 2008 and were signed on its behalf by:

A D Roper
D J S Taylor
Directors

Consolidated Cash Flow Statement

for the year ended 31 December 2007

	2007 £'000	2006 Restated £'000
Cash generated from operations	**6,307**	2,725
Interest received	**491**	230
Interest paid	**(14)**	–
Income tax paid	**(225)**	(316)
Net cash from operating activities	**6,559**	2,639
Investing activities		
Purchases of property, plant and equipment	**(1,413)**	(736)
Proceeds on disposal of property, plant and equipment	**1,107**	3,053
Purchases of intangible assets	**(25)**	(11)
Dividends received	**103**	–
Net cash used in investing activities	**(228)**	2,306
Financing activities		
Issue of ordinary shares	**71**	63
Dividends paid	**(1,375)**	(1,217)
Net cash used in financing activities	**(1,304)**	(1,154)
Net increase in cash and cash equivalents	**5,027**	3,791
Cash and cash equivalents at the beginning of the year	**6,410**	2,629
Exchange gains/(losses) on cash and cash equivalents	**3**	(10)
Cash and cash equivalent at the end of the year	**11,440**	6,410

Reconciliation of Operating Profit to Net Cash Inflow from Continuing Activities

for the year ended 31 December 2007

	2007	2006 Restated
	£'000	£'000
Continuing operating activities		
Operating profit	**4,028**	5,455
Adjustments for:		
Depreciation and amortisation	**1,002**	1,298
Profit on disposal of property, plant and equipment	**(719)**	(1,892)
Charge for share based payments	**3**	8
Decrease in retirement benefit obligation (see note 22)	**(240)**	(1,150)
Inventory	**197**	1,789
Trade and other receivables	**505**	(9)
Trade and other payables	**1,531**	189
Net cash inflow before additional pension payments	**6,307**	5,688
Additional cash contributions to the pension scheme (see note 22)	**–**	(2,963)
Net cash inflow from continuing operating activities	**6,307**	2,725

Notes to the Financial Statements

for the year ended 31 December 2007

1 Summary of significant accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 29. The consolidated financial statements have been prepared in accordance with IFRS adopted for use in the European Union, IFRIC interpretations and the Companies Act 1985 applicable to Companies reporting under IFRS. The Company financial statements continue to be prepared under UK GAAP.

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

Basis of preparation

The consolidated financial statements of Churchill China plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC interpretations and the Companies Act 1985 applicable to Companies reporting under IFRS. The Consolidated and Company financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

(a) Standards, amendment and interpretations effective in 2007

IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1. 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group or Company's financial instruments, or the disclosures relating to taxation and trade and other payables.

IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Group or Company's financial statements. The Company already applies an accounting policy which complies with the requirements of IFRIC 8. Refer to "Share based payments" below.

IFRIC 10, 'Interim financial reporting and impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group or Company's financial statements.

(b) Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group or Company's operations:

- IFRS 4, 'Insurance contracts';
- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies'; and
- IFRIC 9, 'Re-assessment of embedded derivatives'.

Notes to the Financial Statements

for the year ended 31 December 2007

1 Summary of significant accounting policies *(continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group and Company
The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group and Company have not early adopted them:

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment to the standard is still subject to endorsement by the European Union. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009, subject to endorsement by the EU but is currently not applicable to the Group or Company as there are no qualifying assets.

IFRS 8, 'Operating segments' (effective from 1 January 2009). The standard is still subject to endorsement by the European Union. IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009, subject to endorsement by the EU. The expected impact is still being assessed in detail by management, but it appears that there will be no significant changes to the manner in which the segments are reported.

IFRIC 11, 'IFRS 2 – Group and treasury share transactions', (effective from 1 January 2008). IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. This interpretation does not have an impact on the Group or Company's financial statements.

IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Group or Company's accounts.

(d) Interpretations to existing standards that are not yet effective and not relevant for the Group and Company's operations
The following interpretations to existing standards have been published and are mandatory for the Group and Company's accounting periods beginning on or after I January 2008 or later periods but are not relevant for the Group's operations:

IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Group or Company's operations because none of the Group's companies provide for public sector services.

IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group or Company's operations because none of the Group's companies operate any loyalty programmes.

1 Summary of significant accounting policies *(continued)*

Basis of consolidation

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

The financial statements of each undertaking in the Group are prepared to the balance sheet date under UK GAAP. Subsidiaries accounting policies are amended, where necessary, to ensure consistency with the accounting policies adopted by the Group. Intra group transactions are eliminated on consolidation.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution in gains and losses arising in investments in associates are recognised in the income statement.

Notes to the Financial Statements

for the year ended 31 December 2007

1 Summary of significant accounting policies *(continued)*

Segment Reporting
A business segment is a Group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. Income and expenditure arising directly from a business segment are identified to that segment. Income and expenditure arising from central operations which relate to the Group as a whole or cannot reasonably be allocated between segments are classified as unallocated.

Revenue
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, rebates and sales related taxes. Sales of goods are recognised when goods have been delivered and title in those goods has passed. Rebates are recognised at their anticipated level as soon as any liability is expected to arise and are deducted from gross revenue.

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

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

Leases
Management review all new leases and classify them as operating or finance leases in accordance with the guidance in the standard. Lease payments made under operating leases are charged to income on a straight line basis over the term of the lease.

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

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

Dividends
Dividends to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are proposed and approved by the Company's shareholders.

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

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

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

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

1 Summary of significant accounting policies *(continued)*

Retirement benefit costs (continued)
A credit representing the expected return on the assets of the scheme during the year is included within finance income. 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 finance cost. 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.

Differences between actual and expected return on assets during the year are recognised in the statement of recognised income and expense in the year, together with differences arising from changes in actuarial assumptions.

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

Share based payments
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.

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2007

1 Summary of significant accounting policies *(continued)*

Taxation

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

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

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

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

Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities may be set off against each other provided there is a legal right to do so and it is managements' intention to do so.

Property, plant and equipment

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

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

	%
Freehold buildings	2 on cost or valuation
Plant 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.

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

Intangible assets

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

	%
Computer software	33 on cost

Neither the Group nor the Company has any goodwill.

Investment in associates

An associate is defined as an entity which the Group is in a position to exercise significant influence over, taking part in, but not controlling, the financial and operational management of the entity.

The Group's share of post acquisition 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, using the equity method of accounting. 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.

1 Summary of significant accounting policies *(continued)*

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

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

At each reporting date the Directors assess whether there is an indication an asset may be impaired. If any such indicator exists the Group tests for impairment by estimating the recoverable amount of the asset. If the recoverable amount is less than the carrying value of an asset an impairment loss is required. In addition to this, assets with indefinite lives are tested for impairment at least annually.

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

Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

Non current assets held for sale
Non current assets are classified as being held for sale where their value is expected to be recovered through disposal rather than continuing usage within the business. This is generally held to be where there is a high probability of sale in the near future. Management must be committed to sale which should be expected to be completed to qualify for recognition as a completed sale within one year from the date of classification. Non current assets are measured at the lower of carrying value and fair value less disposal costs.

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

Parent Company significant accounting policies
The Company financial statements are prepared under UK GAAP. The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. The principal accounting policies applied in the preparation of the Company financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Notes to the Financial Statements

for the year ended 31 December 2007

1 Summary of significant accounting policies *(continued)*

Investments

Fixed asset investments, comprising investments in subsidiary and associated companies, are stated at cost less any provisions for impairment. Where an event has incurred that gives rise to doubt about the recovery of the carrying value an impairment assessment is made. The impairment is calculated by comparing the investments carrying value to the recoverable amount as required by FRS 11 'Impairment of fixed assets and goodwill'.

Other

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

2 Financial risk management

Financial risk factors

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

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

(a) Market risk

(i) Currency risk

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

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

At 31 December 2007, if sterling had weakened/strengthened by 5% against the US dollar with all other variables held constant, post tax profit for the year would have been £68,000 (2006: £11,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of US dollar denominated trade payables and cash balances. Equity would have been a further £6,000 (2006: £4,000) higher/lower mainly as a result of differences in the translation of US dollar investments in subsidiary undertakings. If sterling had weakened/strengthened by 5% against the Euro with all other variables held constant, post tax profit for the year would have been £227,000 (2006: £202,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Euro denominated trade receivables and cash balances. There would have been no substantial other changes in Equity.

(ii) Cash flow and fair value interest rate risk

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

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

At 31 December 2007, had the rates achieved been 0.1% higher/lower with all other variables held constant then post tax profit for the year would have been £9,000 (2006: £5,000) higher/lower. Other components of equity would have been unchanged.

2 Financial risk management *(continued)*

Financial risk factors *(continued)*

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and credit exposures including outstanding trade receivables and committed transactions. For banks with which the Group places balances on deposit, only independently rated parties with a minimum rating of ‘A’ are accepted. The cash and cash equivalents are as follows:

	£’000
Lloyds TSB plc	7,293
National Westminster Bank plc	3,421
Other	726
	11,440

Risk attached to the receipt of trade receivables is largely controlled through the use of credit insurance and confirmed letters of credit. Where these cannot be obtained the credit control department assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The Group manages its debt position and considers it is in a position of having very limited credit risk.

(c) Price risk

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

(d) Liquidity risk

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

The Group has no long term borrowing and funds its operations from its own cash reserves and the Directors do not consider there to be significant liquidity risk. All liabilities are generally due within 3 months.

Capital risk management

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

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

The Group currently has no debt.

Fair value estimation

The carrying value less impairment provision of trade receivable and payables are assumed to approximate their fair values.

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3 Critical accounting estimates and judgements

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

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

Net realisable value of excess inventories:
The Group identifies inventory where it is believed that the quantity held is in excess of that which may be realised at normal price levels. The realisable value of this inventory is assessed taking into account the estimated sales price less further costs of sale. If the estimated net realisable value of excess inventories were to be 10% higher or lower than management's estimates the value of this provision would change by £209,000 (2006: £171,000).

4 Segmental analysis

(a) Primary reporting format – business segments
The business is managed in two main business segments – hospitality and retail.

	31 December 2007			
	Hospitality £'000	**Retail £'000**	**Unallocated £'000**	**Group £'000**
Revenue	28,576	18,354	–	46,930
Contribution to Group overheads	4,909	1,112	–	6,021
Group overheads			(2,791)	(2,791)
Exceptional items			798	798
Operating profit after exceptional items			(1,993)	4,028
Share of results of associated company			120	120
Finance income/cost			694	694
Profit before income tax				4,842
Income tax expense				(1,147)
Profit for the period				3,695

The 'Unallocated' Group overheads principally comprise costs associated with centralised functions of the parent Company board, finance and administration and information technology.

4 Segmental analysis *(continued)*

	31 December 2006			
	Hospitality £'000	**Retail £'000**	**Unallocated £'000**	**Group £'000**
Revenue	26,018	19,912	–	45,930
Contribution to Group overheads	4,186	953	–	5,139
Group overheads			(2,344)	(2,344)
Exceptional items			2,660	2,660
Operating profit after exceptional items			316	5,455
Share of results of associated company			(7)	(7)
Finance income			294	294
Profit before income tax				5,742
Income tax expense				(1,631)
Profit for the period				4,111

The 'Unallocated' Group overheads principally comprise costs associated with the centralised functions of the parent Company board, finance and administration and information technology.

Other segment items included in the income statement are as follows:

	31 December 2007			
	Hospitality £'000	**Retail £'000**	**Unallocated £'000**	**Group £'000**
Depreciation and amortisation	**579**	**235**	**188**	**1,002**

	31 December 2006			
	Hospitality £'000	**Retail £'000**	**Unallocated £'000**	**Group £'000**
Depreciation and amortisation	563	228	507	1,298
Impairment of associate	–	–	84	84
Restructuring costs	–	–	58	58

Segment assets consist primarily of property, plant and equipment, inventories, trade and other receivables. Unallocated assets comprise intangible assets, investment in associates, available-for-sale financial assets, deferred taxation and cash and cash equivalents.

Segment liabilities comprise trade and other payables. Unallocated liabilities comprise items such as trade and other payables, taxation, deferred taxation and retirement benefit obligations.

Notes to the Financial Statements

for the year ended 31 December 2007

4 Segmental analysis *(continued)*

Capital expenditure comprises additions to property, plant and equipment (note 13) and intangible assets (note 14).

Segment assets and liabilities at 31 December 2007 and capital expenditure for the year ended on that date are as follows:

	Hospitality £'000	Retail £'000	Unallocated £'000	Group £'000
Assets	17,044	8,762	13,065	38,871
Associates	–	–	814	814
Total assets	17,044	8,762	13,879	39,685
Liabilities	4,257	1,676	4,021	9,954
Capital expenditure	1,063	208	167	1,438

Segment asset and liabilities are reconciled to entity assets and liabilities as follows:

	Assets £'000	Liabilities £'000
Segment assets and liabilities	25,806	5,933
Unallocated:		
Central assets and liabilities	2,121	1,846
Deferred tax	318	592
Cash and cash equivalents	11,440	–
Current tax	–	493
Retirement benefit obligations	–	1,090
Total	**39,685**	**9,954**

Segment assets and liabilities at 31 December 2006 and capital expenditure for the year ended on that date are as follows:

	Hospitality £'000	Retail £'000	Unallocated £'000	Group £'000
Assets	16,234	9,988	9,503	35,725
Associates	–	–	797	797
Total assets	16,234	9,988	10,300	36,522
Liabilities	3,469	1,545	5,855	10,869
Capital expenditure	295	298	154	747

Segment assets and liabilities are reconciled to entity assets and liabilities as follows:

	Assets £'000	Liabilities £'000
Segment assets and liabilities	26,222	5,014
Unallocated:	–	–
Central assets and liabilities	2,271	1,163
Available for sale financial assets	22	–
Deferred tax	1,597	554
Cash and cash equivalents	6,410	–
Current tax	–	190
Retirement benefit obligations	–	3,948
Total	36,522	10,869

4 Segmental analysis *(continued)*

(b) Secondary reporting format – geographical segments

The Group's two business segments operate in four main geographical segments, even though they are managed on a worldwide basis.

Geographical segment	2007 £'000	2006 £'000
United Kingdom	**30,114**	28,243
Rest of Europe	**9,106**	8,443
North America	**4,974**	6,585
Other	**2,736**	2,659
	46,930	45,930

The total assets of the business are allocated as follows:
United Kingdom £38,886,000 (2006: £35,781,000), Rest of Europe £8,000 (2006: £19,000), North America £739,000 (2006: £664,000), Other £52,000 (2006: £58,000).

Capital expenditure was made as follows:
United Kingdom £1,429,000 (2006: £711,000), Other £9,000 (2006: £36,000).

5 Expenses by nature

	Before exceptional items 2007 £'000	**Exceptional items 2007 £'000**	**Total 2007 £'000**	Before exceptional items 2006 £'000	Exceptional items 2006 £'000	Total 2006 £'000
Changes in inventories of finished goods and work in progress	**26**	**–**	**26**	1,599	–	1,599
Raw materials	**2,806**	**–**	**2,806**	2,581	–	2,581
Employee benefit expense (note 7)	**16,592**	**–**	**16,592**	15,083	(1,092)	13,991
Other external charges	**23,195**	**–**	**23,195**	22,898	–	22,898
Depreciation and impairment charges	**1,002**	**–**	**1,002**	990	308	1,298
Loss/(profit) on disposal of property, plant and equipment	**79**	**(798)**	**(719)**	(16)	(1,876)	(1,892)
Total cost of sales distribution and administration expenses	**43,700**	**(798)**	**42,902**	43,135	(2,660)	40,475

Notes to the Financial Statements

for the year ended 31 December 2007

5 Expenses by nature *(continued)*

Exceptional items

The profit on disposal of property recognised in 2007 is in relation to the sale of surplus land at Sandyford in November 2007. A taxation charge of £nil has been charged in the Group's overall tax charge in relation to this disposal. Net receipts of £1,042,000 were received in relation to this disposal during the year.

Costs of £366,000 arising from the restructuring of certain manufacturing operations during 2006 and the resulting write down of property, plant and equipment have been disclosed as exceptional and have been charged as an impairment in arriving at the operating profit for the year. A credit of £110,000 was included in the overall tax charge in relation to this item. The cash outflow in relation to this item during 2006 was £55,000.

The cessation of future accrual to the retirement benefit scheme on 31 March 2006 led to a one off adjustment under IAS 19 'Employee benefits' in relation to the curtailment of future benefits of £1,150,000. This amount was treated as exceptional given its size and was credited against employee benefit expense in arriving at operating profit. A charge of £345,000 was included in the overall tax charge in relation to this item.

The profit on disposal of property recognised in 2006 was in relation to the sale of Alexander Pottery in January 2006. A taxation charge of £550,000 was 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 2006.

6 Average number of people employed

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

	2007 Number	2006 Number
By activity		
Production	**413**	401
Sales and administration	**225**	195
	638	596

The Company had no employees.

7 Employee benefit expense

	2007 £'000	2006 £'000
Staff costs (for the above persons)		
Wages and salaries	**14,748**	13,290
Social security costs	**1,249**	1,121
Current service cost less curtailments (see note 22)	**–**	(943)
Defined contribution pension cost (see note 22)	**434**	341
Other pension costs (see note 22)	**158**	174
Share options granted to directors and employees (see note 24)	**3**	8
	16,592	13,991

Directors' emoluments

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

Company

The Company did not make any payments to employees.

8 Finance income and costs

	2007 £'000	2006 £'000
Interest income and short term deposits	**491**	230
Interest on pension scheme	**239**	64
Finance income	**730**	294
Other interest	**(14)**	–
Impairment of available for sale financial asset	**(22)**	–
Finance costs	**(36)**	–
Net finance income	**694**	294

9 Auditors' remuneration

	2007 £'000	2006 £'000
Amounts paid to the Group's auditors were as follows:		
Audit services – audit of subsidiaries	**65**	63
Audit services – audit of parent and consolidated financial statements (Company £1,500, 2006: £1,500)	**17**	7
Non-audit services – taxation advice	**26**	12
	108	82

10 Income tax expense

	2007 £'000	2006 £'000
Group		
Current tax	**528**	188
Deferred tax (note 21)		
Origination and reversal of temporary differences	**626**	1,443
Impact of change in UK tax rate	**(7)**	–
	1,147	1,631

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for the year ended 31 December 2007

10 Income tax expense *(continued)*

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

	2007	2006
	£'000	£'000
Profit before tax	**4,842**	5,742
Tax calculated at domestic tax rates applicable to profits in the respective countries	**1,439**	1,715
Income not subject to tax	**(31)**	–
Expenses not deductible for tax purposes	**31**	28
Utilisation of previously unrecognised capital tax losses	**(240)**	(13)
Tax losses for which no deferred income tax asset was recognised	**(49)**	(147)
Remeasurement of deferred tax due to change in UK tax rate	**(7)**	–
Other	**4**	48
Tax charge	**1,147**	1,631

During the year, as a result of the change in the UK Corporation Tax rates which will be effective from 1 April 2008, deferred tax balances have been remeasured. Deferred tax relating to temporary differences which are expected to reverse prior to 1 April 2008 is measured at 30% and deferred tax relating to temporary differences expected to reverse after 1 April 2008 are measured at the tax rate of 28% as these are the tax rules that will apply on reversal.

The weighted average applicable tax rate was 30% (2006: 30%).

There is no tax on the exceptional profit from sale of land due to the offset of capital losses.

The current tax charge for 2006 included a credit of £17,000 in relation to restructuring costs which have been treated as exceptional. The deferred taxation charge for 2006 included a charge of £550,000 in respect of the disposal of Alexander Pottery, a charge of £345,000 in respect of curtailment benefits under IAS 19 and a credit of £93,000 in relation to restructuring costs all of which have been treated as exceptional.

Announcements were made in the March 2007 Budget that changes to the corporation tax legislation would be enacted in the 2008 Finance Act (FA 2008) to phase out industrial buildings allowances from 2008 onwards. This change has not been substantially enacted at the balance sheet date and so the numbers reported in the financial statements have not been adjusted.

The effect of the changes to be enacted in FA 2008 would be to increase the net deferred tax liability provided and charge at 31 December 2007 by £683,000.

11 Earnings per ordinary share

The basic earnings per ordinary share is based on the profit after income tax and on 10,933,561 (2006: 10,867,167) 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 after income tax 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.

	2007 Pence per share	2006 Pence per share
Basic earnings per share (Based on earnings £3,695,000 (2006: £4,111,000))	**33.8**	37.7
Adjustments:		
Restructuring costs (note 3)	**–**	2.4
Profit on disposal of fixed assets	**(7.3)**	(12.2)
Curtailment of pension benefits (note 3)	**–**	(7.4)
Adjusted earnings per share	**26.5**	20.5

Diluted basic earnings per ordinary share is based on the profit after income tax and on 11,007,289 (2006: 10,910,580) ordinary shares, being the weighted average number of ordinary shares in issue during the year of 10,933,561 (2006: 10,867,167) increased by 73,728 (2006: 43,413) 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 after income tax and adjusted to take into account exceptional items, profit on disposal of fixed assets and the recognition of deferred tax assets.

	2007 Pence per share	2006 Pence per share
Diluted basic earnings per share (Based on earnings £3,695,000 (2006: £4,111,000))	**33.6**	37.7
Adjustments:		
Restructuring costs (note 5)	**–**	2.4
Profit on disposal of fixed assets	**(7.3)**	(12.2)
Curtailment of pension benefits (note 5)	**–**	(7.4)
Diluted adjusted earnings per share	**26.3**	20.5

12 Dividends

The dividends paid in the year were as follows:

Ordinary	**2007 £'000**	2006 £'000
Final 2006 8.1p per 10p ordinary share (Final 2005: 7.3p)	**883**	793
Interim 2007 4.5p per 10p ordinary share paid (Interim 2006: 3.9p)	**492**	424
	1,375	1,217

A final dividend of 9.2p per 10p ordinary share for the year to 31 December 2007 will be proposed at the Annual General Meeting amounting to a total dividend of £1,007,000. These financial statements do not reflect the dividends payable.

Notes to the Financial Statements

for the year ended 31 December 2007

13 Property, plant and equipment

The Company has no property, plant and equipment. Details of those relating to the Group are as follows:

Group	Freehold land and buildings £'000	Plant £'000	Motor vehicles £'000	Furniture, fittings and equipment £'000	Total £'000
At 1 January 2006					
Cost	9,578	14,768	795	3,271	28,412
Accumulated depreciation	(1,305)	(12,486)	(336)	(2,921)	(17,048)
Net book amount	**8,273**	**2,282**	**459**	**350**	**11,364**
Year ended 31 December 2006					
Opening net book amount	8,273	2,282	459	350	11,364
Additions	33	221	346	136	736
Disposals	–	–	(138)	–	(138)
Depreciation charge (note 5)	(146)	(836)	(147)	(140)	(1,269)
Closing net book amount	**8,160**	**1,667**	**520**	**346**	**10,693**
At 31 December 2006					
Cost	9,611	14,158	782	3,407	27,958
Accumulated depreciation	(1,451)	(12,491)	(262)	(3,061)	(17,265)
Net book amount	**8,160**	**1,667**	**520**	**346**	**10,693**
Year ended 31 December 2007					
Opening net book amount	8,160	1,667	520	346	10,693
Additions	18	1,072	213	110	1,413
Disposals	(173)	(78)	(49)	(17)	(317)
Depreciation charge (note 5)	(142)	(508)	(151)	(175)	(976)
Closing net book amount	**7,863**	**2,153**	**533**	**264**	**10,813**
At 31 December 2007					
Cost	9,436	14,523	880	2,185	27,024
Accumulated depreciation	(1,573)	(12,370)	(347)	(1,921)	(16,211)
Net book amount	**7,863**	**2,153**	**533**	**264**	**10,813**

14 Intangible assets

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

Group	**Computer software £'000**
At 1 January 2006	
Cost	160
Accumulated amortisation and impairment	(107)
Net book amount	**53**
Year ended 31 December 2006	
Opening net book amount	53
Additions	11
Amortisation charge (note 5)	(29)
Closing net book amount	**35**
At 31 December 2006	
Cost	171
Accumulated amortisation and impairment	(136)
Net book amount	**35**
Year ended 31 December 2007	
Opening net book amount	35
Additions	25
Amortisation charge (note 5)	(26)
Closing net book amount	**34**
At 31 December 2007	
Cost	196
Accumulated amortisation and impairment	(162)
Net book amount	**34**

Notes to the Financial Statements

for the year ended 31 December 2007

15 Investment in associate

	Group		Company	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Cost				
At 1 January	**1,470**	1,393	**355**	355
Share of profit	**120**	77	**–**	–
Dividends received during the year	**(103)**	–	**–**	–
At 31 December	**1,487**	1,470	**355**	355
Impairment				
At 1 January	**673**	589	**–**	–
Impairment of investment in associate	**–**	84	**–**	–
At 31 December	**673**	673	**–**	–
Net book value				
End of year	**814**	797	**355**	355

The investment in associate 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.

	2007	2006
	£'000	£'000
Share of associate's assets	**2,047**	1,929
Share of associate's liabilities	**(504)**	(403)
Share of associate's net assets	**1,543**	1,526

During the year the Group purchased raw materials to a value of £2,045,000 (2006: £1,804,000) from Furlong Mills Limited. Amounts due to that company at 31 December 2007 were £114,000 (2006: £171,000).

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.

The impairment recognised in previous years reflected management's view of the ongoing benefits that could be derived from the ongoing associate business.

In the Group's consolidated financial statements the investment is accounted for on the equity basis. Within the Company's accounts the investment is shown at historic cost.

16 Investment in subsidiary undertakings

	Company £'000
Cost or valuation	
At 1 January 2007 and 31 December 2007	2,627
Impairment	
At 1 January 2007 and 31 December 2007	424
Net book value	
At 1 January 2007 and 31 December 2007	2,203

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.

17 Available for sale financial assets

	Group Available for sale financial assets £'000	Company Other investments £'000
Cost		
At 1 January 2007 and 31 December 2007	22	43
Impairment		
At 1 January 2007	–	–
Impairment of available for sale financial asset	22	43
At 31 December 2007	**22**	**43**
Net book value at 31 December 2007	**–**	**–**
Net book value at 1 January 2007	22	43

The above represents 35.9% (2006: 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

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18 Inventories

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

	2007	2006
	£'000	£'000
Raw materials	**26**	197
Work in progress	**736**	690
Finished goods	**5,898**	5,970
	6,660	6,857

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

The cost of inventories recognised as an expense and included in the income statements amounted to £28,112,000 (2006: £28,918,000).

19 Trade and other receivables

	Group		**Company**	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Trade receivables	**9,221**	9,892	**–**	–
Less: provision for impairment of trade receivables	**(9)**	(23)	**–**	–
Trade receivables – net	**9,212**	9,869	**–**	–
Other	**5**	23	**–**	–
Prepayments	**389**	219	**–**	–
Receivables from related parties (note 27)	**–**	–	**11,971**	13,345
	9,606	10,111	**11,971**	13,345
Less non-current portion: loans to related parties	**–**	–	**11,847**	13,226
Current portion	**9,606**	10,111	**124**	119

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

The Group operates a credit risk management policy under which the majority of trade receivables are secured either through the use of letters of credit or trade insurance policies. Trade receivables that are less than three months past due and not covered by insurance arrangements are not considered impaired unless there is specific evidence to the contrary.

As of 31 December 2007, trade receivables of £8,109,000 (2006: £8,968,000) were fully performing.

19 Trade and other receivables *(continued)*

As of 31 December 2007, trade receivables of £1,073,000 (2006: £894,000) were past due but not impaired. The ageing of these receivables is as follows:

	2007	2006
	£'000	£'000
Up to 3 months	**1,036**	814
3 to 6 months	**14**	61
Over 6 months	**23**	19
	1,073	894

As of 31 December 2007 trade receivables of £39,000 (2006: £30,000) were impaired and provided for the amount of provision for 31 December 2007 was £9,000 (2006: £23,000). The individually impaired receivables relate to customers which are in unexpectedly difficult economic conditions. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2007	2006
	£'000	£'000
Up to 3 months	**33**	3
3 to 6 months	**–**	7
Over 6 months	**6**	20
	39	30

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

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

	2007	2006
	£'000	£'000
At 1 January	**23**	19
Provision for receivables impairment	**9**	23
Receivables written off during the year as uncollectible	**(23)**	(19)
At 31 December	**9**	23

The creation and release of provision for impaired receivables have been included in 'other external charges' in the income statement (note 5). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

Notes to the Financial Statements

for the year ended 31 December 2007

19 Trade and other receivables *(continued)*

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

	2007	2006
	£'000	£'000
Pounds	**7,417**	7,754
Euros	**1,300**	1,039
US dollar	**889**	1,318
	9,606	10,111

During the year the Group had total losses of £50,000 (2006: gains of £102,000) on all forward option contracts that have been recognised in the Income Statement and as at 31 December held forward exchange contracts for the sale of Euro of £575,000 (2006: £1,007,000). These contracts are held at their fair value with losses of £12,000 (2006: £3,000) recognised in relation to the contracts outstanding at the year end.

Company

As of 31 December 2007, Company receivables from related parties of £11,971,000 (2006: £13,345,000) were fully performing. The carrying amounts of the Company's receivables are denominated in the following currencies:

	2007	2006
	£'000	£'000
Pounds	**11,956**	13,335
US dollar	**15**	10
	11,971	13,345

20 Trade and other payables

	Group		**Company**	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Trade payables	**2,192**	1,616	**–**	–
Amounts due to related parties	**114**	171	**13**	13
Social security and other taxes	**1,000**	986	**25**	19
Accrued expenses	**4,473**	3,404	**1**	1
	7,779	6,177	**39**	33

All the above liabilities mature within twelve months from 31 December 2007.

Note 19 shows the losses/gains on forward option contracts that have been recognised in the Income Statement and as at 31 December the Group held forward exchange contracts for the purchase of US dollars of £122,000 (2006: nil). These contracts are held at their fair value with gains of £4,000 (2006: £nil) recognised in relation to the contracts outstanding at the year end.

21 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2007 £'000	2006 £'000
Group		
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**182**	1,485
– Deferred tax asset to be recovered within 12 months	**136**	112
	318	1,597
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	**(559)**	(550)
– Deferred tax liabilities to be recovered within 12 months	**(33)**	(4)
	(592)	(554)
Deferred tax (liabilities)/assets (net)	**(274)**	1,043

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

	2007 £'000	2006 £'000
Beginning of the year	**1,043**	2,820
Income statement charge (note 10)	**(619)**	(1,443)
Tax charged directly to equity (note 24)	**(698)**	(334)
End of year	**(274)**	1,043

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

Deferred tax liabilities	**Accelerated tax depreciation £'000**	**Land and buildings revaluation £'000**	**Total £'000**
At 1 January 2006	135	386	521
Charged to the income statement	37	–	37
Credited directly to equity	–	(4)	(4)
At 31 December 2006	172	382	554
Charged to the income statement	67	–	67
Credited directly to equity	–	(29)	(29)
At 31 December 2007	**239**	**353**	**592**

Notes to the Financial Statements

for the year ended 31 December 2007

21 Deferred income tax *(continued)*

Deferred tax assets	**Retirement benefit obligation £'000**	**Tax losses £'000**	**Other £'000**	**Total £'000**
At 1 January 2006	(2,771)	(550)	(20)	(3,341)
Charged/(credited) to the income statement	1,254	550	(393)	1,411
Charged directly to equity	333	–	–	333
At 31 December 2006	(1,184)	–	(413)	(1,597)
Charged to the income statement	153	–	402	555
Charged directly to equity	724	–	–	724
At 31 December 2007	**(307)**	**–**	**(11)**	**(318)**

The deferred income tax charged to equity during the past year is as follows:

	2007 £'000	2006 £'000
Fair value reserves in shareholders' equity:		
Tax on actuarial loss on retirement benefits scheme	**724**	333
Impact of change in UK tax rate on deferred tax	**(26)**	–
	698	333

Deferred income tax of £3,000 (2006: £4,000) was transferred from other reserves (note 24) to retained earnings (note 25). This represents deferred tax on the difference between the actual depreciation on buildings and the equivalent depreciation based on the historical cost of buildings.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of £1,511,000 (2006: £1,875,000) in respect of capital losses amounting to £5,395,000 (2006: £6,251,000) that can be carried forward against future capital gains.

22 Retirement benefit obligations

	2007 £'000	2006 £'000
Balance sheet obligations		
Pension benefits	**1,090**	3,948
Income statement credit		
Pension benefits	**–**	(943)

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 £592,000 (2006: £722,000 less an exceptional credit of £1,150,000 re curtailment benefits giving a net credit of £428,000). Of this cost £nil (2006: credit of £943,000), related to the Churchill Group Retirement Benefit Scheme, £160,000 (2006: £136,000) was in respect of the Churchill China 1999 Pension Scheme and £271,000 (2006: £205,000) 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 £20,000 (2006: £36,000).

No contributions have been made to the Churchill Group Retirement Benefit Scheme in relation to current service since the date of cessation of the future accrual of benefits on 31 March 2006. Prior to that date the Group paid contributions to the Scheme at a rate of 13.6% of pensionable salary. In addition a contribution of £240,000 (2006: £3,009,000) 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.

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

	2007 £'000	2006 £'000
Present value of funded obligations	**29,209**	30,960
Fair value of plan assets	**(28,119)**	(27,012)
Liability in balance sheet	**1,090**	3,948

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

	2007 £'000	2006 £'000
Beginning of the year	**30,960**	31,152
Current service cost	**–**	207
Employees contributions	**–**	89
Interest cost	**1,579**	1,495
Actuarial gains	**(2,571)**	(271)
Benefits paid	**(759)**	(562)
Curtailments	**–**	(1,150)
End of year	**29,209**	30,960

Notes to the Financial Statements

for the year ended 31 December 2007

22 Retirement benefit obligations *(continued)*

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

	2007	2006
	£'000	£'000
Beginning of the year	**27,012**	21,917
Expected return on plan assets	**1,818**	1,559
Actuarial (losses)/gains	**(192)**	839
Employer contributions	**240**	3,170
Employee contributions	**–**	89
Benefits paid	**(759)**	(562)
End of the year	**28,119**	27,012

Plan assets are comprised as follows:

	2007		2006	
	£'000		£'000	
Equity investments	**19,701**	**70%**	20,215	75%
Debt investments	**2,584**	**9%**	1,893	7%
Other	**5,834**	**21%**	4,904	18%
	28,119	**100%**	27,012	100%

The expected return on plan assets is determined by considering the expected returns on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields at the balance sheet date. Expected returns on equity and property investments reflect long term real rates of return experienced in the respective markets.

The amounts recognised in the income statement are as follows:

	2007	2006
	£'000	£'000
Current service cost	**–**	207
Gains on curtailment	**–**	(1,150)
Net credit recognised in staff costs (note 7)	**–**	(943)
Interest cost	**1,579**	1,495
Expected return on plan assets	**(1,818)**	(1,559)
Net credit recognised in finance income	**(239)**	(64)

The actual return on plan assets was £1,618,000 (2006: £2,427,000).

22 Retirement benefit obligations *(continued)*

A history of experience gains and losses, since the adoption of IAS 19, as at 31 December would have been as follows:

	2007	2006
	£'000	£'000
Difference between the expected and actual return on scheme assets:		
Amount	**(200)**	839
Percentage of scheme assets	**1%**	3%
Experience gains and losses on scheme liabilities:		
Amount	**(192)**	310
Percentage of present value of scheme liabilities	**1%**	1%
Total amount recognised in statement of recognised income and expenditure (SORIE):		
Amount	**2,379**	1,110
Percentage of present value of scheme liabilities	**8%**	4%

The principal assumptions used were as follows:

Pension benefits	**2007**	2006
	% per annum	% per annum
Discount rate	**5.8%**	5.1%
Inflation rate	**3.2%**	3.1%
Expected return on plan assets	**6.8%**	6.8%
Rate of increase of pensions in payment	**3.2%**	3.1%
Rate of increase of deferred pensions	**3.2%**	3.1%

Assumptions regarding future mortality rates are set based on advice in accordance with published statistics and experience.

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

	2007	2006
	Number	Number
Male	**20.2**	18.5
Female	**23.1**	21.6

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

	2007	2006
	Number	Number
Male	**21.3**	19.6
Female	**24.0**	22.9

Notes to the Financial Statements

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23 Issued share capital and premium

Group and Company	Number of shares (thousands)	Ordinary shares £'000	Share premium £'000
At 1 January 2006	10,862	1,086	2,207
Employee share option schemes	40	4	59
At 31 December 2006	10,902	1,090	2,266
Employee share option schemes	46	5	66
At 31 December 2007	**10,948**	**1,095**	**2,332**

The total authorised number of ordinary shares is 14,300,000 (2006: 14,300,000) with a par value of 10p (2006: 10p) per share. All issued shares are fully paid.

Share option schemes

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. 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:

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

23 Issued share capital and premium *(continued)*

The following options exercisable over ordinary shares were outstanding at 31 March 2008:

Number of shares	2007	2006	Exercise price	Date from which exercisable	Expiry date
The Executive share option scheme					
	2,000	20,250	151p	December 2003	December 2010
	47,000	47,000	208p	April 2007	April 2014
The unapproved Executive share option scheme					
	12,500	12,500	118.5p	April 2003	April 2010
	21,500	42,000	151p	December 2003	December 2010
	53,000	60,000	171p	April 2005	April 2012
	53,000	53,000	208p	April 2007	April 2014
	189,000	234,750			

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 2007 is set out below.

	2007 Number '000	2007 Weighted average exercise price	2006 Number '000	2006 Weighted average exercise price
Outstanding at 1 January	**234,750**	**178.7p**	307,250	175.5p
Forfeited	**–**	**–**	(32,500)	173.2p
Exercised	**45,750**	**154.1p**	(40,000)	158.5p
Outstanding at 31 December	**189,000**	**184.6p**	234,750	178.7p
Exercisable at 31 December	**89,000**	**158.3p**	134,750	156.9p

Notes to the Financial Statements

for the year ended 31 December 2007

23 Issued share capital and premium *(continued)*

There were no share options granted during the year.

	2007 Weighted average exercise price	**2007 Number '000**	**2007 Weighted average remaining life (expected)**	**2007 Weighted average remaining life (contractual)**	2006 Weighted average exercise price	2006 Number '000	2006 Weighted average remaining life (expected)	2006 Weighted average remaining life (contractual)
100p – 149p	**118.5p**	**12,500**	**0.0**	**2.3**	118.5p	12,500	0.0	3.3
150p – 199p	**164.9p**	**76,500**	**0.0**	**3.9**	160.8p	122,250	0.0	4.6
200p – 250p	**208.0p**	**100,000**	**1.3**	**6.3**	208.0p	100,000	2.3	7.3

The weighted average share price for options exercised in the period was 154.1p (2006: 158.5p). The total charge during the year for employee share based payment plans was £3,000 (2006: £8,000), all of which related to equity settled share based payment transactions.

24 Other reserves

Group

	Land and buildings revaluation £'000	**Currency translation £'000**	**Share based payment £'000**	**Other reserves £'000**	**Total £'000**
Balance at 1 January 2006	901	–	13	253	1,167
Depreciation transfer – gross	(12)	–	–	–	(12)
Depreciation transfer – tax	4	–	–	–	4
Share based payment	–	–	8	–	8
Currency translation	–	(10)	–	–	(10)
Balance at 31 December 2006	893	(10)	21	253	1,157
Depreciation transfer – gross	(12)	–	–	–	(12)
Depreciation transfer – tax	3	–	–	–	3
Change in UK tax rates	26	–	–	–	26
Share based payment	–	–	3	–	3
Currency translation	–	3	–	–	3
Balance at 31 December 2007	**910**	**(7)**	**24**	**253**	**1,180**

The land and buildings revaluation reserve is the reserve created under UK GAAP where the land and buildings were revalued in 1992. On adoption of IFRS the Group has taken the exemption conferred by IFRS 1 to treat this revalued amount as deemed cost on transition because it approximated to fair value at that time. The release between the revaluation reserve and the profit and loss reserve is the release to distributable reserves of the additional depreciation on revaluation.

Other than the revaluation reserve, there are no restrictions on the distribution of the reserves.

Company
Other reserves of £24,000 (2006: £21,000) represent provision for share based payment as shown in the above table.

25 Retained earnings

	Group £'000	Company £'000
At 1 January 2006	17,461	14,053
Profit/(loss) for the year	4,111	(7)
Dividends relating to 2006	(1,217)	(1,217)
Depreciation transfer on land and buildings net of tax	8	–
Actuarial gains net of tax	777	–
At 31 December 2006	21,140	12,829
At 1 January 2007	21,140	12,829
Profit for the year	3,695	65
Dividends relating to 2007	(1,375)	(1,375)
Depreciation transfer on land and buildings net of tax	9	–
Actuarial gains net of tax	1,655	–
At 31 December 2007	**25,124**	**11,519**

26 Commitments

Capital commitments

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

	Group		Company	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Property, plant and equipment	**1,051**	315	**–**	–

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	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Payments under operating leases charged against income during the year	**98**	105	**–**	–
Future aggregate minimum commitments under non-cancellable operating leases				
No later than one year	**26**	17	**–**	–
Later than one year and no later than five years	**52**	141	**–**	–

Notes to the Financial Statements

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27 Related party transactions

Details of related party transactions for the Group are shown in the Directors' Report and in the Notes to the financial statements appropriate to the type of transaction being dealt with.

The Group has taken advantage of the exemption under IAS 24 allowing details of related party transactions with subsidiary companies not to be disclosed in the consolidated financial statements.

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

Company

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

	2007	2006
	£'000	£'000
Associates		
Dividends received – Furlong Mills Limited	**103**	–
Subsidiaries		
Management charge – Churchill China Inc	**5**	5
Interest received – Churchill China (UK) Limited	**9**	9
Loans repaid – Churchill China (UK) Limited	**1,388**	1,224

28 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items in the accounts. All financial assets and liabilities including cash and cash equivalents are classified as loans and receivables in both 2007 and 2006 with the exception of 'available for sale assets' of £22,000 in 2006 which are classed as available for sale.

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29 IFRS Transition Statements

Income statements

Year to 31 December 2006	As previously reported (UK GAAP) £'000	IAS 18 Revenue £'000	IAS 38 Intangible assets £'000	IAS 36 Goodwill £'000	IAS 17 Leases £'000	IAS 19 Employee benefits £'000	IAS 21 Foreign exchange rates £'000	IAS 12 Deferred tax £'000	Other IAS adjust-ments £'000	Total transition effect to IFRS £'000	Restated under IFRS £'000
Revenue	47,757	(1,827)								(1,827)	45,930
Operating profit before exceptional items	2,777			22	(5)	1				18	2,795
Exceptional items	784								1,876	1,876	2,660
Operating profit after exceptional items	3,561			22	(5)	1			1,876	1,894	5,455
Share of results of associated company	5								(12)	(12)	(7)
Profit on disposal of property, plant and equipment	1,876								(1,876)	(1,876)	–
Finance income	305								(11)	(11)	294
Profit before income tax	5,747	–	–	22	(5)	1	–	–	(23)	(5)	5,742
Income tax expense	(1,659)				1			4	23	28	(1,631)
Profit for the period	4,088	–	–	22	(4)	1	–	4	–	23	4,111
Attributable to:											
Equity holders of the parent	4,088	–	–	22	(4)	1	–	4	–	23	4,111

Notes to the Financial Statements

for the year ended 31 December 2007

29 IFRS Transition Statements *(continued)*

Balance sheets

31 December 2005	As previously reported (UK GAAP) £'000	IAS 18 Revenue £'000	IAS 38 Intangible assets £'000	IAS 36 Goodwill £'000	IAS 17 Leases £'000	IAS 19 Employee benefits £'000	IAS 21 Foreign exchange rates £'000	IAS 12 Deferred tax £'000	Other IAS adjust-ments £'000	Total transition effect to IFRS £'000	Restated under IFRS £'000
Non current assets											
Plant, property and equipment	11,485		(53)		(68)					(121)	11,364
Goodwill and intangible assets	56		53	(56)						(3)	53
Investment in associates	825								(22)	(22)	803
Available for sale financial assets									22	22	22
Deferred income tax assets								(386)	3,727	3,341	3,341
	12,366	–	–	(56)	(68)	–	–	(386)	3,727	3,217	15,583
Current assets											
Inventories	8,646									–	8,646
Trade and other receivables	10,537								(435)	(435)	10,102
Cash and cash equivalents	2,629									–	2,629
	21,812	–	–	–	–	–	–	–	(435)	(435)	21,377
Non current assets held for sale	1,022									–	1,022
Current assets	22,834	–	–	–	–	–	–	–	(435)	(435)	22,399
Total assets	35,200	–	–	(56)	(68)	–	–	(386)	3,292	2,782	37,982
Current liabilities											
Trade and other payables	(6,268)				22	(53)			318	287	(5,981)
Current income tax liabilities	–								(318)	(318)	(318)
Provisions for other liabilities and charges	(6)									–	(6)
	(6,274)	–	–	–	22	(53)	–	–	–	(31)	(6,305)
Non current liabilities											
Hire purchase	(16)				16					16	–
Retirement benefit obligations	(6,464)								(2,771)	(2,771)	(9,235)
Deferred income tax liabilities									(521)	(521)	(521)
Total non current liabilities	(6,480)	–	–	–	16	–	–	–	(3,292)	(3,276)	(9,756)
Total liabilities	(12,754)	–	–	–	38	(53)	–	–	(3,392)	(3,307)	(16,061)
Net assets	22,446	–	–	(56)	(30)	(53)	–	(386)	–	(525)	21,921
Capital and reserves attributable to equity holders in Company											
Issued share capital	1,086									–	1,086
Share premium account	2,207									–	2,207
Retained earnings	17,600			(56)	(30)	(53)				(139)	17,461
Other reserves	1,553							(386)		(386)	1,167
	22,446	–	–	(56)	(30)	(53)	–	(386)	–	(525)	21,921

29 IFRS Transition Statements *(continued)*

Balance sheets *(continued)*

31 December 2006	As previously reported (UK GAAP) £'000	IAS 18 Revenue £'000	IAS 38 Intangible assets £'000	IAS 36 Goodwill £'000	IAS 17 Leases £'000	IAS 19 Employee benefits £'000	IAS 21 Foreign exchange rates £'000	IAS 12 Deferred tax £'000	Other IAS adjust-ments £'000	Total transition effect to IFRS £'000	Restated under IFRS £'000
Non current assets											
Property, plant and equipment	10,779		(35)		(51)					(86)	10,693
Goodwill and intangible assets	34		35	(34)						1	35
Investment in associates	819								(22)	(22)	797
Available for sale financial assets	–								22	22	22
Deferred income tax assets								(382)	1,979	1,597	1,597
	11,632	–	–	(34)	(51)	–	–	(382)	1,979	1,512	13,144
Current assets											
Inventories	6,857									–	6,857
Trade and other receivables	10,412								(301)	(301)	10,111
Cash and cash equivalents	6,410									–	6,410
	23,679	–	–	–	–	–	–	–	(301)	(301)	23,378
Non current assets held for sale										–	
Current assets	23,679	–	–	–	–	–	–	–	(301)	(301)	23,378
Total assets	35,311	–	–	(34)	(51)	–	–	(382)	1,678	1,211	36,522
Current liabilities											
Trade and other payables	(6,332)				16	(52)			191	155	(6,177)
Current income tax liabilities					1				(191)	(190)	(190)
Provisions for other liabilities and charges										–	–
	(6,332)	–	–	–	17	(52)	–	–	–	(35)	(6,367)
Non current liabilities											
Hire purchase										–	–
Retirement benefit obligations	(2,764)								(1,184)	(1,184)	(3,948)
Deferred income tax liabilities	(60)								(494)	(494)	(554)
Total non current liabilities	(2,824)	–	–	–	–	–	–	–	(1,678)	(1,678)	(4,502)
Total liabilities	(9,156)	–	–	–	17	(52)	–	–	(1,678)	(1,713)	(10,869)
Net assets	26,155	–	–	(34)	(34)	(52)	–	(382)	–	(502)	25,653
Capital and reserves attributable to equity holders in Company											
Issued share capital	1,090									–	1,090
Share premium account	2,266									–	2,266
Retained earnings	21,250			(34)	(34)	(52)	10			(110)	21,140
Other reserves	1,549						(10)	(382)		(392)	1,157
	26,155	–	–	(34)	(34)	(52)	–	(382)	–	(502)	25,653

Notes to the Financial Statements

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29 IFRS Transition Statements *(continued)*

Transition to IFRS

This is the first year that the Group has presented financial information under IFRS. The last financial statements were presented under UK GAAP for the year ended 31 December 2006. The Group's date of transition to IFRS is 1 January 2007 and all comparative information in this financial information has been restated to reflect the Group's adoption of IFRS, except where otherwise required or permitted by IFRS 1.

IFRS 1 requires that IFRS is applied retrospectively to establish the Group's balance sheet at the date of transition, 1 January 2007 unless a specific exemption is applied. In preparing this IFRS information, the Group has adopted the following exemptions:

- Business Combinations completed prior to date of transition to IFRS have not been restated;
- Fixed assets held at a revalued amount at the date of transition to IFRS have been deemed as cost at that date;
- Cumulative translation differences relating to overseas subsidiaries have been set to zero as at the date of transition; and
- IFRS 2 Share-based Payments is only applied to those share options granted after 7 November 2003 that had not vested by 1 January 2007.

The analysis below shows a reconciliation of net assets and profit as reported under UK GAAP at 31 December 2006 to the revised net assets and profit under IFRS reported in this consolidated financial information.

Explanatory notes to the adjustments from UK GAAP to IFRS

Revenue

Previously, Churchill China plc disclosed the cost of annual retrospective rebates and discounts paid to customers on achievement of revenue and certain other contractual targets as a cost of sale. Following consideration of the terms of the individual contractual arrangements, these retrospective rebates and discounts are now classified as a reduction to gross revenue, with no change to profit before tax in the year.

Intangible assets

Previously, computer software assets were carried in fixtures and fittings within Fixed Assets. Under IAS 38, computer software is now classed as an intangible asset.

Goodwill

Previously, the goodwill acquired on the acquisition of Wren Giftware was amortised over a ten year life. Under IAS 36, acquired goodwill is subject to an annual impairment test. Following the application of this impairment test it has been calculated that as at 31 December 2006 there was no remaining value to the goodwill acquired.

Leases

Previously, a lease relating to computer hardware was classed as a finance lease. Under IAS 17, this lease has been reclassified as an operating lease.

Employee benefits

Previously, the Group provided for short term employee benefits in relation to unused holiday pay for weekly paid employees, but did not provide for that associated with monthly paid employees. Under IAS 19, the Group has provided for liabilities associated with monthly paid employees in addition to provisions for weekly paid employees.

29 IFRS Transition Statements *(continued)*

Explanatory notes to the adjustments from UK GAAP to IFRS *(continued)*

Foreign exchange rates

Previously, the Group wrote off translation differences on the consolidation of its US subsidiary to the profit and loss account. Under IAS 21, these differences must now be written off to a separate currency reserve. The Group has taken the transitional exemption under IFRS 1 to restate these differences from 1 January 2006.

Valuation of properties and deferred tax

Freehold land and buildings were last revalued in 1992. On the introduction of FRS 15 the Group opted to treat freehold property at cost and the earlier valuation, as modified by subsequent additions and disposals, was classed as deemed cost. Deferred tax was not provided as it was believed that any such liability would not crystallise. Under IFRS the Group will adopt the deemed cost basis for land and buildings. Under IAS 12 deferred tax is provided on the potential taxable gain on the sale of the land at its revalued level and on the difference between the net book value and tax value of buildings. No credit has been taken for available capital losses as it is not probable that they will crystallise.

Other IAS adjustments

The disclosure of the exceptional profit on disposal of property, plant and equipment was treated under UK GAAP as a line item below operating profit. This has been amended to reflect IFRS requirements and is now treated as an operating exceptional item. This reclassification does not affect reported profits in the period.

Previously, the Group disclosed its share of the operating profit, interest received and tax of the results of its associated company Furlong Mills Limited separately on the face of the profit and loss account. Under IAS 1 these separate elements are now disclosed as a single figure "Share of results of associated company" in the income statement.

Previously, the Group disclosed deferred tax assets and liabilities within current assets, provisions for liabilities and charges and on a netted off basis against related pension scheme liabilities. Under IAS 12 deferred tax is classified as non current on a classified balance sheet.

A number of other adjustments have been made to reclassify various assets and liabilities according to IFRS. These reclassifications do not affect reported profits in the period.

Cash flow statement

There were no material adjustments to disclosed figures in the consolidated cash flow statement arising from the implementation of IFRS.

CHURCHILL

Five Year Financial Record

	2003 UK GAAP £'000	2004 UK GAAP £'000	2005 UK GAAP £'000	2006 IFRS £'000	**2007** **IFRS** **£'000**
Revenue	47,748	47,752	44,835	45,930	**46,930**
Operating profit before exceptional items	2,727	3,220	2,696	2,795	**3,230**
Share of results of associate net of impairment	29	100	(21)	(7)	**120**
Finance income/(cost)	27	(44)	(114)	294	**694**
Profit on ordinary activities before profit on disposal of fixed asset and exceptional items	2,783	3,276	2,561	3,082	**4,044**
Exceptional items	(1,639)	(866)	–	784	**–**
Profit on disposal of property	18	19	269	1,876	**798**
Profit before income tax	1,162	2,429	2,830	5,742	**4,842**
Income tax expense	(553)	(703)	(152)	(1,631)	**(1,147)**
Profit after income tax	609	1,726	2,678	4,111	**3,695**
Dividends	1,070	1,117	1,194	1,217	**1,375**
Net assets employed	26,723	20,113	22,446	25,653	**29,731**
Ratios					
Operating margin before exceptional items	5.7%	6.7%	6.0%	6.1%	**6.9%**
Basic earnings per share (pence)	5.7	16.0	24.7	37.7	**33.8**
Adjusted earnings per share (pence)	18.2	21.5	17.6	20.5	**26.5**

The adjusted earnings per share is based on the profit after income tax and adjusted to take into account exceptional items, profit on disposal of fixed assets and the recognition of related deferred tax assets. The above figures for the year to 31 December 2006 have been adjusted to reflect the introduction of International Financial Reporting Standards.

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 21 May 2008 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 2007 be received.
2. That, as recommended by the Directors, a final dividend of 9.2p on each ordinary share for the year ended 31 December 2007 be declared.
3. That A D Roper be re-elected as a Director.
4. That R S Kettel be re-elected as a Director.
5. That J W Morgan 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 2008.
7. That the Directors' Remuneration Report for the year ended 31 December 2007 be approved.
8. That the authorised share capital of the Company be increased from £1,430,000 to £2,000,000 by the creation of a further 5,700,000 ordinary shares of 10p each.
9. That the Directors be and they are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 ("the Act") and in substitution for any existing power to allot relevant securities, within the meaning of section 80 of the Act of the Company to such persons, at such times and subject to such terms and conditions as the Directors may determine. The maximum aggregate nominal amount of relevant securities which may be allotted pursuant to this authority shall be £361,279 and shall be allotted during the period commencing on the date of passing this resolution and expiring on 30 March 2013 (both dates inclusive), save that the Company may make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Special Business

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

10. That, subject to the passing of resolution 9 above, 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 9 above, 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 £54,739;

    and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution 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.

Notice of Annual General Meeting

(continued)

11. 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 1,094,787 representing approximately 10 per cent of the present issued share capital of the Company;

    (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. 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.

12. That the Articles of Association contained in the document produced to the Meeting and initialled by the Chairman for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

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 23 April 2008

Explanatory Notes

1. A member entitled to vote at this Meeting is entitled to appoint one or more proxies to exercise all or any of his rights to attend, speak and 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. To be valid, a form of proxy for use at the Meeting and the power of attorney or other authority (if any) under which it is signed, or a notarially certified or office copy of such power or authority, must be deposited with the Company's Registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing BN99 6AL, not less than 48 hours before the time appointed for holding the Meeting. The appointment of a proxy will not preclude a member from attending at the Meeting and voting thereat in person.

   In order to facilitate voting by corporate representatives at the Meeting, arrangements will be put in place at the Meeting so that (i) if a corporate shareholder has appointed the chairman of the Meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the Meeting then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the Meeting but the corporate shareholder has not appointed the chairman of the Meeting as its corporate representative, a designated corporate representative will be nominated from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the chairman is being appointed as described in (i) above.

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, the register of Directors' interests and the Company's Memorandum and Articles of Association (both existing and as proposed to be adopted).

3. Item 8 in the notice of Annual General Meeting is an ordinary resolution increasing the authorised share capital of the Company. The authorised share capital of the Company has remained unchanged since 26 October 1994 and the Directors now believe it is appropriate to increase this authorised capital to preserve flexibility of operation.

4. Item 9 in the notice of Annual General Meeting is an ordinary resolution renewing an authority previously granted to the Directors at the Annual General Meeting on 14 May 2003, to authorise the Directors at any time prior to 30 March 2013 to allot relevant securities up to an aggregate nominal value of £361,279 (representing approximately 33% of the current issued share capital of the Company at the date of this notice). The Directors have no present intention to exercise this authority and are taking the same to preserve flexibility.

5. Item 10 in the notice of Annual General Meeting is a special resolution to empower the Directors at any time prior to the conclusion of the 2009 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 £54,739 (equivalent to 547,390 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 dealt with in resolution 10 up to 3,397,874 ordinary shares (representing approximately 33 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.

6. Item 11 in the notice of Annual General Meeting is a special resolution to allow the Company at any time prior to the conclusion of the 2009 Annual General Meeting to repurchase up to 1,094,787 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.

7. Item 12 is a resolution to adopt new Articles of Association ("the New Articles") to replace the current Articles of Association. The main reason for the New Articles is to take account of changes in UK company law brought about by the Companies Act 2006. The principal changes being proposed in the New Articles are summarized below. Other changes, which are of a minor, technical or clarifying nature, have not been noted.

   The Act is, in many instances, more prescriptive than the previous legislation giving less discretion to companies to adopt their own policies and procedures in some areas. Consequently, in some instances, the New Articles now simply refer to the Act's requirements to determine certain issues eg length of notice to convene meetings.

7.1 Transfer of shares – Article 35: the amendment reflects the change in the law under the Act which requires a company, where it refuses to register a transfer of shares, to give the transferee reasons for the refusal;

7.2 Provisions relating to convening annual general and extraordinary meetings – Articles 50 – 54: the amendments, in the main, refer to the express provisions of the Act which deal with these matters;

7.3 Voting – Articles 62 – 78: the amendments reflect the changes in the law under the Act which entitle proxies to vote on a show of hands as well as on a poll, and the time limits for receipt by the Company of the appointment or termination of the appointment of a proxy. The New Articles give the Directors a discretion, when calculating these time limits, to exclude week-ends and bank holidays;

7.4 Directors' interests in contracts – Article 126: the New Articles contain a new provision – Article 126.3 – which will be effective from 1 October 2008, which continues to allow Directors' interests in contracts that are disclosed in accordance with the requirements of the Act;

7.5 Directors' conflict of interests – Article 127: under the Act, from 1 October 2008, a Director must avoid a situation where a Director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The requirement is very broad and could apply, for example, if a Director becomes a director of another company or a trustee of another organisation.

   The Act allows directors of public companies to authorise conflicts, or potential conflicts, where appropriate, if a company's articles of association contain a provision to this effect. The Act also allows articles of association to contain other provisions for the authorisation of Directors' conflicts of interest so as to avoid Directors finding themselves in breach of a duty.

   The New Articles give the Directors authority to approve such situations and include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

   There are safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and, secondly, in taking the decision, the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

   The New Articles also contain provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a Director from being in breach of duty if a conflict or potential conflict of interest arises. These provisions will only apply where the situation giving rise to the potential conflict has previously be authorised by the Directors. It is the Board's intention to report annually on the Company's compliance with its procedures for ensuring that the Directors' powers to authorise conflicts have operated effectively;

7.6 Electronic communication – Article 156.4 - 6: various provisions of the Act which came into force in January 2007 enabled companies to communicate with members by electronic and/or website communications if the company had the necessary authorisation. The New Articles contain provisions which will permit the Company to take advantage of these provisions;

7.7 Extraordinary resolutions: various amendments have been made to reflect that the concept of an extraordinary resolution has not been retained in the Act;

7.8 Directors fees – Article 100: the limit on the annual amount payable by way of Directors fees in this article has been increased from £75,000 to £100,000. This fee has not been increased since adoption of the Articles on 26 October 1994.

7.9 The Article authorising the Company to appoint a former Director as its President has been deleted as it was thought to be redundant.

8. 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 19 May 2008 (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.

Shareholder Notes

Shareholder Notes

CHURCHiLL

Churchill China plc
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