Annual Report 2008

CHURCHiLL

Contents

Front and Inside Cover:
Alchemy 'Ambience'

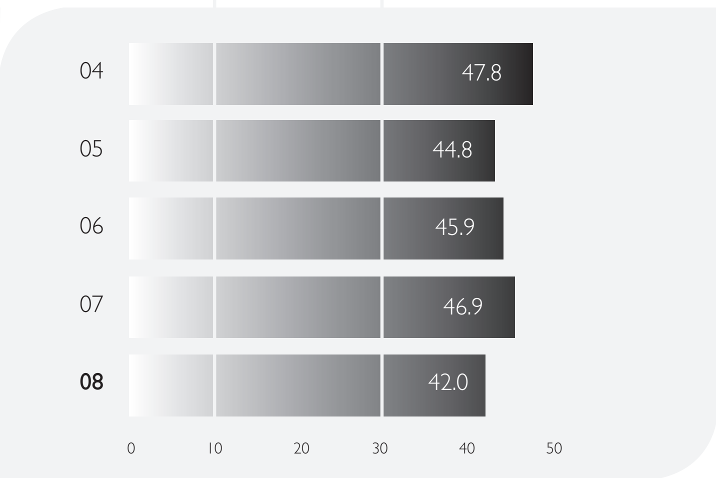
CHURCHILL

Financial Highlights

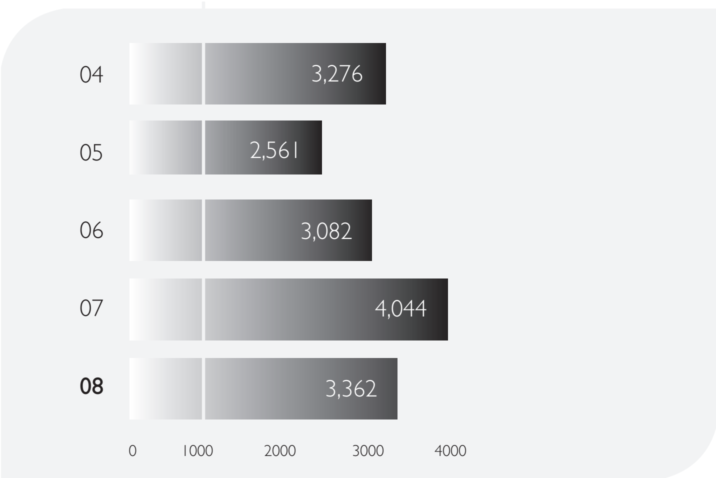
	Total 2008 £'000	Before exceptional items 2007 £'000	Exceptional items 2007 £'000	Total 2007 £'000
Results				
Revenue - continuing operations	41,969	46,930	–	46,930
Operating profit - continuing operations	2,804	3,230	798	4,028
Share of results of associate company	(71)	120	–	120
Net finance income	629	694	–	694
Profit before income tax	3,362	4,044	798	4,842
Dividends paid	1,531	1,375	–	1,375
Key Ratios				
Operating margin before exceptional items	6.7%	6.9%		
Operating margin after exceptional items	6.7%			8.6%
Basic earnings per share	13.8p			33.8p
Adjusted earnings per share	22.2p	26.5p		
Diluted basic earnings per share	13.7p			33.6p
Diluted adjusted earnings per share	22.1p	26.3p		
Dividends paid per share	14.0p			12.6p

The adjusted EPS excludes exceptional items (see note 11). Exceptional items related to deferred taxation in 2008 and profit on disposal of property, plant and equipment in 2007.

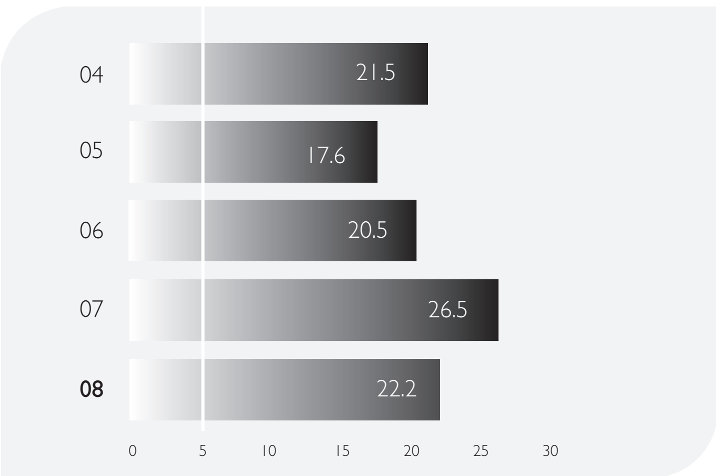
5 Year Performance



Revenue (£m)



Profit before profit on disposal of property, plant and equipment, exceptional items, recognition of deferred tax asset and deferred tax liability (£000)



Adjusted earnings per share (p)

Right: Alchemy Fine Crystal 'Vineyard'

CHURCHILL

Company Profile

Churchill China plc
Directors, secretary and advisers

EXECUTIVE DIRECTORS

A D Roper

D J S Taylor

D M O'Connor

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

19 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 Banking Group 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

"2008 was a year of good performance"

Left: Churchill Super Vitrified 'X Squared'
Below Right: Churchill 'Eden'
Cath Kidston ' Gingham' 'Harlequin'

Chairman's Statement

I am pleased to report that 2008 was a year of good performance, with respectable profitability, positive cash flows and continued progress against key strategic targets. This was a sound performance against the back drop of a deteriorating economic environment and weakening consumer demand. Churchill China has been in a stronger position than many of our peer group due to our balanced business of hospitality and retail accounts, our strong balance sheet, tight control of our cost base and effective working capital management.

Financial Review

Group revenues fell by 11% to £42.0m (2007: £46.9m) reflecting a lower demand in many of our important hospitality markets against strong 2007 comparatives and reduced sales in our retail division as we withdrew from certain low contribution business.

Group operating profit before exceptional items was £2.8m (2007: £3.2m) and our pre-tax profit before exceptional items was 17% lower at £3.4m (2007: £4.0m).

Overall margins were maintained at close to 2007 levels despite the fall in sales, reflecting a better mix of business across the Group, benefits from our continuing investment programme and good cost control.

Group operating profit after exceptional items was £2.8m (2007: £4.0m). Pre tax profit after exceptional items was £3.4m (2007: £4.8m). 2007 comparatives included a one off benefit relating to the disposal of land. Adjusted earnings per share decreased by 16% to 22.2p (2007: 26.5p). Basic earnings per share, including exceptional items, were 13.8p (2007: 33.8p).

Our tax charge for the year includes a one off provision for deferred tax of £919,000 which has been treated as exceptional. This relates to the phasing out of Industrial Buildings Allowances enacted in the Finance Act 2008.

We continued our strong record of cash generation from operations. Overall cash balances remain healthy at £7.7m (2007: £11.4m), the reduction reflecting strategic investment of £4.6m in capital expenditure (principally our new warehouse) and some increase in working capital as we expanded inventory holdings.

Dividend

In the light of the respectable performance of the business in a demanding year, the Board is pleased to recommend a maintained final dividend of 9.2p per share. Together with the interim dividend paid last October, this gives a total dividend declared in respect of 2008 of 14.0p compared to 13.7p for 2007. Our record of profitability and cash generation allows us to provide a real return to investors and we will continue to manage our dividend policy to deliver long term shareholder value. The dividends declared in 2008 were covered 1.6 times by adjusted earnings per share.

Attractive real shareholder returns are an important objective of the Board but total shareholder returns in 2008 were depressed by the sharp contraction in the share price of not just your Company but equity markets as a whole. Over the last five years Churchill has delivered an overall return of 33%, well in excess of the average of the AIM market.

Above Left: Alchemy 'Buffet Covers'
Above Centre: Art de Cuisine 'Menu'
Above Right: Churchill Super Vitrified 'Bit on the Side'
Right: Sanderson 'Sweet Bay'

"Our market leading position, recurring revenues and strong balance sheet are attractive"

Left: Alchemy 'Counterwave'

"Our core ranges retain their superior performance"

Operational Review

Hospitality

Sales to hospitality customers were lower at £25.0m (2007: £28.6m) reflecting soft demand in most markets throughout the year, particularly the UK, where sales were £16.3m (2007: £18.9m). As a result the net contribution was lower at £3.7m (2007: £4.9m). Churchill's recurring replacement sales to regular customers were resilient throughout the year but there were fewer of the new installations in pubs, hotels and restaurant chains which enhanced 2007's result. There was also markedly lower banqueting activity in the final quarter of the year. The UK Treasury has concluded that the UK as a whole experienced sharp destocking in the final quarter of 2008 which contributed to the contraction of GDP and the ceramics industry was not immune.

Total export sales at £8.7m (2007: £9.7m) reflected weaker performance in Spain and the USA where the deteriorating economic environment adversely affected both capital spending by our customers and lower eating out by the consumer.

We are continuing to develop our sales and marketing capabilities in target export markets to ensure we make the most of available opportunities which ranged in 2008 from the Caribbean to Turkey, Central Europe and the UAE.

Our core super vitrified and fine china dinnerware ranges retain their superior performance and we are continuing to work closely with end users, professional chefs and our distribution partners to identify requirements and impress with our value proposition. Churchill has a talented team of sales, marketing, design and product development executives focused on the needs of a diverse range of customers from public and private sector accounts. It is always pleasing to receive new orders from customers for a new product designed and developed specifically for their requirements.

Retail

Revenues from the sales of our wide ranging retail product portfolio, which are almost all outsourced, were £17.0m (2007: £18.3m) with the decline being in relatively unattractive volume channels. This resulted in a substantially improved net contribution before central costs of £1.7m (2007: £1.1m).

In my last annual report I stated that a key objective for 2008 was to increase margins and build our middle market 'Queens' and related business with department stores and independent retailers. This plan has been pursued with some success and we are acquiring listings and generating sales in major retailers including John Lewis, Debenhams, House of Fraser and others, together with over 100 new independent accounts. We expect further material progress in 2009 in this sector of the market.

Another key element of our retail strategy has been to broaden our range of top quality license partnerships which include Disney, Sanderson and Cath Kidston. We aim to reflect the full range of lifestyles within our license portfolio including entertainment, fashion and celebrity alongside classic brands and we believe that this reflects the diversity of consumer taste. These licensed product ranges coupled with a top quality design team, professional sales and logistics and deep retail experience has enabled us to grow sales in key accounts despite the well reported slow down in the High Street.

These circumstances create considerable opportunities for your Group given its relative strength and diversity and we have noted market share shifting to Churchill as customers re-evaluate their core suppliers.

This core business capability has been reflected most recently in our securing a new partnership with Jamie Oliver. Jamie Oliver's ability to inspire the public and his honest and enthusiastic approach is a perfect fit with Churchill China's brand values.

We achieved important performance objectives in 2008 for our retail business and are optimistic of further progress this year despite more difficult economic conditions.

Manufacturing, Technical and Logistics

During 2008 we continued to implement key cost reduction and manufacturing efficiency initiatives. In the second half of the year, we successfully consolidated our remaining Alchemy fine china production into the Marlborough site, thus completing the rationalisation programme centralising our production on a single modern and efficient site. This move, together with the benefit of the new fast fire kiln and lower output levels, allowed Churchill to absorb a considerable portion of the inflated gas and electricity price rises which impacted the business in 2008.

Site consolidation has brought significant efficiencies within our manufacturing operations and has allowed us to focus resource on value creating activities, developing new products and processes, rather than managing a disparate production base. We expect to deliver further benefits from this in the medium term.

During 2008 we incurred extra warehousing and inter site transport costs on a temporary basis by using the old Wheildon Road site. These costs will be reduced when the new warehouse is completed in May 2009.

Capital Expenditure

The Group has invested significantly during the year in support of our long term strategic objectives of delivering a market leading service to our customers and value to our shareholders.

I have already mentioned the £1.5m project to consolidate our Alchemy manufacturing on one site. During the second half of 2008 we commenced work on a new state of the art high bay warehouse large enough to accommodate 12,500 pallets which will enhance substantially our flexibility to support both our retail and hospitality clients, at a total cost of £4m. Once completed, all operations will be at our Marlborough site and the Whieldon Road facility will be vacated and sold.

Our other major initiative during 2008 was to fundamentally re-evaluate and upgrade our management systems to meet the needs of an international manufacturing and logistics business. After months of preparation, we selected a partner to implement a major ERP system which should be operational in the business in the second half of 2009. The total spend, which fell mostly in the second half of 2008, will be £0.8m. We envisage considerable operational efficiency benefits throughout the business once the project is completed.

Outsourcing

The last 12 months has seen an unprecedented number of factory closures in China and continued sterling weakness has put the Churchill buying team under pressure to ensure that these events have not impacted on customers or affected service and quality.

There has been a large scale reduction in the plethora of importers of housewares product. Only those that add value, are professionally organised and well financed have survived. Major retailers prefer to work with reliable suppliers capable of delivering well designed, ethically produced goods on schedule.

The UK outsourcing team is a good blend of graduates and seasoned buyers. We have long standing relationships with many of our suppliers at Director level and unlike general wholesaler/importers our technical and production experts are able to offer them constructive consultancy and real assistance to improve manufacturing efficiencies and ensure improved quality and cost.

Our US$ sales are an approximate match for our US$ purchases but in a harsh trading environment there is considerable pressure on outsource departments to buy more competitively without sacrificing quality and delivery assurance.

Above Far Left: Jeff Banks 'Infinity'
Above Centre Left: Ella Doran 'Smartie Love'
Above Centre Right: Disney 'Friend Forever Breakfast Set'
Above Far Right: Cath Kidston 'Electric Flowers & Spray Floral Crush Mugs'
Right: RHS 'Fruit Garden'

"The Group has invested significantly during the year"

People

Churchill is very fortunate to have such a dedicated and skilled workforce, many of whom are long serving and following in the footsteps of other family members who pursued careers with us over the passing decades. A special mention should made of Gordon Stephenson who worked for Churchill for a record 57 years and who retired in August 2008 but sadly died in February 2009.

Health and Safety in the working environment is a top priority in all areas of the business. We believe that adherence to legislation alone is not sufficient and that management and operatives share a common responsibility for the safety of themselves and others. Our role is to encourage a culture of Health and Safety, but there is no substitute for training and discipline.

For a comparatively small company Churchill has serious ambitions in terms of training and qualifications: Over 50% of all operatives have occupational NVQs and the target for 2009 is 90%. We have a thriving graduate recruitment programme with over 50 graduates employed throughout the business. Senior managers are actively encouraged and sponsored to study for business and other qualifications.

Left: Alchemy 'Ambience''
Top Right: Alchemy 'Atlantic'
Above Left:Sanderson 'Etchings & Roses'
Above Centre: Churchill Fine Crystal 'Event'
Above Right: Alchemy 'White'

Prospects

Despite the prevailing economic circumstances, we have performed in line with our expectations in the first three months of 2009 with Group sales marginally ahead of the corresponding period in 2008. Our retail business has started well and sales will be enhanced later this year with the impact of the new Jamie Oliver license which we secured in February. This license is very exciting for our business and opens up a range of opportunities on a worldwide basis.

Demand for hospitality products is marginally behind last year in the traditionally quiet first quarter. It is not unreasonable to mirror many in the industry and state trading conditions for the rest of 2009 are unpredictable. However, our market leading position, recurring revenues and strong balance sheet is attractive to our customer base and distribution partners and provides a basis of confidence for a sound performance.

We will continue to improve efficiency and keep costs and working capital tightly managed. The executive management team is both hugely experienced and conservative by nature and we are confident in our future prospects.

J N E Sparey
31 March 2009

Directors' Report

for the year ended 31 December 2008

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2008.

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 35.

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 2008 and 31 December 2007:

	2008	2007
	£'000	£'000
Ordinary dividend:		
Final dividend 2007 9.2p (2006: 8.1p) per 10p ordinary share	**1,007**	883
Interim dividend 2008 4.8p (2007: 4.5p) per 10p ordinary share	**524**	492
	1,531	1,375

The Directors now recommend payment of the following dividend:	**2008**	2007
	£'000	£'000
Ordinary dividend:		
Final dividend 2008 9.2p (2007: 9.2p) per 10p ordinary share	**1,003**	1,007

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 S Kettel *
A D Roper	R N Grundy (resigned 28 April 2008)
D J S Taylor	I T Hicks
D M O'Connor	J W Morgan *

* Non executive

The Directors retiring by rotation are D J S Taylor and J N E Sparey who being eligible, offer themselves for re-election. The unexpired terms of the service contracts of D J S Taylor and J N E Sparey are twelve and eleven months respectively.

The biographical details of the Directors are as follows:

Jonathan Sparey, non executive Chairman, aged 51, 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, Chief Executive Officer, aged 60, 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.

Directors *(continued)*

David Taylor, Finance Director and Company Secretary, aged 49, has worked for the Group for 17 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 65, 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 52, has worked for Churchill for 18 years in a number of production, operations and marketing roles. He has extensive experience within the Ceramics industry and joined the Board in 1999.

Iain Hicks, Sourcing Director, aged 39, 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 51, is a Director of SVG Investment Managers Limited and has many years of experience in investment management within growth small and medium sized companies. He was previously Managing Director of Prudential plc's Private Equity business in Europe and Asia Pacific. 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 65% of our gross revenue, we also enjoy significant sales to Europe and North America which respectively account for 19% and 7% 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 has generally been a reduction in the overall size of our markets during the year. We expected that following a period of expansion in 2007 there would be a lower level of growth in UK hospitality markets. Given current economic uncertainties there has been a general tightening of demand across all our markets as consumer confidence and spending has reduced. The impact of this reduction has been increased by de-stocking within our distribution channels. We expect demand levels to be subdued throughout 2009, although replacement sales within our Hospitality business should support overall revenues. We expect our Retail business to benefit from a better competitive position and increased licensing activity. As yet there is little evidence of increases to export sales, which might normally be expected to follow from weaker sterling values.

The cost of imported product has risen during the year principally arising from the appreciation of the US dollar, the principal trading currency of our overseas suppliers. There is some evidence of lower price expectations from our suppliers which mitigates some of the effects of currency change. Our UK manufacturing operations remain subject to a number of cost pressures, principally driven by increased commodity and energy prices. We have responded to these cost rises through restructuring our operations and by reducing our usage of energy.

We believe that to succeed as a business we must remain agile and 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 long term Group profitability principally through steady increments to sales and margins, but also in active control of our cost base. It is no longer sufficient simply to provide a value based offering, we must meet our customers expectations in key areas in order to remain their preferred supplier.

Design

It is a key strategic aim to design products that meet our end users requirements both in terms of performance, shape and surface design. Our target markets require product that is 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 and licensors. 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.

We have sought to develop our technical advantage and have recently gained accreditation from the United Kingdom Accreditation Service as an approved testing laboratory under ISO 17025. This will enable us both to optimise our own trading position and to offer services to other manufacturers.

Overseas branches

The Group's principal operations are located within the United Kingdom, however Churchill China plc also operates from a US based sales subsidiary and have a sourcing and support operation in China.

Future outlook

The Board believes that long term demand for hospitality products in developed markets will continue to increase as leisure related spending recovers and grows. There has been a long term 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.

Retail markets have been generally difficult for several years driven by changes in the structure of distribution channels within the market place and intense competitive pressure largely caused by over capacity in the worldwide ceramics market. There is increasing evidence that this overcapacity is now being reduced as competitors withdraw from the market place. The Board also believes that the plans enacted within the Retail division have placed Churchill in a position to benefit from these competitive pressures relative to other suppliers to the market.

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.

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.

Directors' Report

(continued)

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 elements of 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.

Customer and supplier creditworthiness

Whilst the Group maintains a strong balance sheet and credit position it operates in a market where both customers and suppliers are exposed to credit and liquidity related problems. The Group manages this risk by trading, where possible, on secured terms and by regularly reviewing the financial position of key business partners.

Product compliance

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

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

Key Performance Indicators

Sales and sales growth

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

Sales 2008: £42.0m (2007: £46.9m).

Sales growth 2008: -10.6% (2007: 2.2%).

Overall sales levels have decreased principally as a result of less favourable general economic conditions, but also arising from our aim to reduce low margin sales within volume distribution channels within our retail business.

Customer service and inventory

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

Inventory 2008: £8.5m (2007: £6.7m).

The level of inventory is considered reasonable. Levels have increased to support the introduction of new ranges in both our divisions and as a result of increased buying costs where product is sourced in foreign currency. In the short term inventory levels also rose as a result of lower than expected demand within the Group's Hospitality division in the final quarter of 2008.

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 2008: £2.8m (2007: £3.2m).

Operating profit before tax and exceptional items fell due to lower sales and contribution levels. Savings within our cost base offset some of the impact of these reduced revenues. Operating margins before exceptional items were maintained at acceptable levels (6.7% (2007: 6.9%)).

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 2008: £3.4m (2007: £4.0m).

Profit before tax and exceptional items fell in 2008 largely as a result of reduced sales and operating profits but also due to reduction in the share of profit received from our associated company, Furlong Mills.

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 meet taxation payments and to ensure that our shareholders receive an appropriate return.

Operating profit before exceptional items 2008: £2.8m (2007: £3.2m).

Operating cash generation before additional pension contributions 2008: £2.5m (2007: £6.3m).

Percentage of operating cash generation before additional pension contributions to operating profit before exceptional items 89% (2007: 195%).

Three year average percentage of operating cash generation before additional pension contributions for the last three years to operating profit before exceptional items 165% (2007: 200%).

Operating cash generation was below operating profit largely due to increased inventory holding levels. This increase reflects both wider product ranges and lower than anticipated demand levels in the final quarter of 2008.

Directors' Report

(continued)

Insurance of Directors

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

Employees

The Group recognises that well trained, motivated and committed employees are critical to the current and future success of our business. We aim to involve our workforce, through employee communication, team briefs and various internal forums and committees. We encourage our employees to engage with the Company's strategy and goals. We have worked hard to develop and foster an open and constructive relationship with our employees and their trade union representation and meet with them regularly to discuss developments within the business.

Training and development at all levels within the business is actively promoted, from essential skills to professional qualifications. We have worked extensively with our local further education college through Train to Gain and over half of our manufacturing and warehousing teams having gained or are working towards an occupational NVQ. By the end of 2009 we expect this will have increased to 90%. Our programme to offer essential skills within the working day has been of substantial benefit to a number of the employees who took advantage of this facility. Our engineering and supervisory multi-skilling programmes are core to us meeting future manufacturing challenges. In difficult economic times our focus on training demonstrates our long term commitment to our workforce and this has helped overall morale and motivation.

We have an established graduate recruitment programme which now provides over 20% of our staff employees. These junior members of staff will provide the core of our future management team and our training programmes have been developed to provide them with the necessary skills and experience to meet the needs of the business.

We remain committed to Total Quality Management using Process Improvement techniques to engage employees in the development of new methods to improve quality, processes and performance.

The Company is fully committed to its equal opportunities employment policy offering equality in recruitment, training, career development and promotion of all employees irrespective of gender, ethnic origin, age, nationality, marital status, religion, sexual orientation or disability. If an employee were to become disabled during their employment every effort would be made to retain them within the business and offer appropriate re-training.

We work to continually improve Health and Safety providing a safe and healthy working environment for all our employees and visitors. NEBOSH, NVQs and internal training programmes are regularly offered to update safety skills.

Environment, social and community

The Group considers and manages the impact of its actions on the environment and wider social and community issues. We are anxious that we take into account our economic, social and environmental impact locally, nationally and internationally.

The principal impact of the Group's operations on the environment are in relation the energy it consumes and the waste products produced as part of its operations. Whilst the Company manufactures a product which may be re-used many hundreds of times, a significant amount of energy is consumed in its production. As a result of this we have invested over several years to reduce our energy consumption and have replaced older systems and machinery with more modern energy efficient plant and procedures. We are currently seeking accreditation under ISO 14001 "Energy Management", the international standard for energy efficient operation. Programmes are already in place to minimise energy usage and waste. We have also instituted a programme to work with our customers both in terms of the development of products that lower their energy consumption and also to reduce the amount of packaging associated with our products.

We understand that we have an impact on our local community and consider the effect of our actions on our local area. Where possible we work to reduce any adverse effects of our operations, consistent with the needs of other stakeholders within our business.

Financing

The Group currently has in place short term variable rate financing arrangements to provide finance for working capital requirements where appropriate.

Financial instruments

The Group uses its own cash resources, 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.

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	1,212,500	11.1%
S Baker	1,000,000	9.1%
J A Roper	1,000,000	9.1%
E S & S J Roper	942,265	8.6%
M J & G Roper	706,880	6.4%
Rensburg Sheppards Investment Management	664,566	6.0%
Discretionary Unit Trust	545,000	5.0%
Henderson Global Investors	440,000	4.0%

Share repurchase

During the year the Company repurchased 58,400 (2007: nil) 10p ordinary shares at a total cost of £160,000 (2007: £ nil) in order to improve overall shareholder return. 13,000 (2007: nil) of these shares were re-issued in respect of employee share option schemes for a total consideration of £22,000 (2007: £ nil). The maximum number of shares held by the Company during the year was 53,400 10p ordinary shares. The Company retains a power, subject to the fulfilment of certain conditions and as approved at the 2008 Annual General Meeting, for the further purchase of its own shares.

Directors' Report

(continued)

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 2008 was 40 days (2007: 28 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 (2007: £nil) and £4,810 (2007: £8,076) respectively. In addition to the above the Group regularly donates quantities of product to charitable causes. The estimated value of these donations in 2008 was £9,000 (2007: £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 £4,810 were £1,110 to the John Ritchie Charity, £514 to Help for Heroes, £500 each to Hollywall Primary School, Footsteps for Families and the Race for Life and £494 to the Douglas Macmillan Home. The remaining contributions were in line with the Group's policy in respect of charitable donations which 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 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). 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 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 and parent Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements *(continued)*

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 and parent Company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The 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 2009

Report of the Remuneration Committee

for the year ended 31 December 2008

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 has the power to consider the Group's performance on environmental, social and governance issues when setting the remuneration of Executive Directors.

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 (Chief Executive Officer) 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 £	Compensation for loss of office £	**Aggregate emoluments £**	Pensions (see below) £	**Aggregate emoluments including pensions £**
2008							
Executive							
A D Roper	232,833	13,500	940	–	**247,273**	–	**247,273**
D J S Taylor	161,334	10,000	14,099	–	**185,433**	11,293	**196,726**
D M O'Connor	161,334	10,000	17,634	–	**188,968**	11,293	**200,261**
R N Grundy*	52,000	–	6,592	120,000	**178,592**	3,640	**182,232**
I T Hicks	116,667	8,000	9,682	–	**134,349**	8,167	**142,516**
Non executive							
J N E Sparey	57,000	–	–	–	**57,000**	–	**57,000**
R S Kettel	35,332	–	–	–	**35,332**	–	**35,332**
J W Morgan	35,334	–	–	–	**35,334**	–	**35,334**
	851,834	41,500	48,947	120,000	**1,062,281**	34,393	**1,096,674**
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**

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 2008 and 2007.

Pension costs above represent contributions as defined by the Listing Rules and are contributions made by the Group to defined contribution schemes. For additional information in respect of Directors' pensions refer to the section 'Pensions' below.

R N Grundy's remuneration in 2008 is to the date of his resignation (28 April 2008).

Report of the Remuneration Committee

(continued)

Share options

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

	Date of grant	**Number of options 31 December 2008 or at date of cessation**	Number of options 31 December 2007	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	05.12.00	**2,000**	2,000	151	Dec 2003	Dec 2010
Unapproved Executive scheme	05.12.00	**20,500**	20,500	151	Dec 2003	Dec 2010
Unapproved Executive scheme	19.04.02	**15,000**	15,000	171	Apr 2005	Apr 2012
Unapproved Executive scheme	30.04.04	**10,000**	10,000	208	Apr 2007	Apr 2014
		55,000	55,000			
D M O'Connor						
Unapproved Executive scheme	19.04.02	**10,000**	10,000	171	Apr 2005	Apr 2012
Executive Scheme	30.04.04	**4,000**	4,000	208	Apr 2007	Apr 2014
Unapproved Executive Scheme	30.04.04	**6,000**	6,000	208	Apr 2007	Apr 2014
		20,000	20,000			
R N Grundy						
Unapproved Executive scheme	19.04.02	**13,000**	13,000	151	Apr 2005	Apr 2012
Unapproved Executive scheme	30.04.04	**10,000**	10,000	171	Apr 2007	Apr 2014
		23,000	23,000			
I T Hicks						
Approved Executive scheme	30.04.04	**6,000**	6,000	208	Apr 2007	Apr 2014
Unapproved Executive scheme	30.04.04	**4,000**	4,000	208	Apr 2007	Apr 2014
		10,000	10,000			

No share options were granted to or exercised by Directors during the year.

Share options are granted to Directors in accordance with the terms of reference of the Remuneration Committee (see page 24) 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.

Phantom Share Scheme

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

	Date of grant	**Number of phantom shares 31 December 2008**	Number of phantom shares 31 December 2007	Base value Pence	Cap value Pence	Dated from which exercisable	Expiry date
D J S Taylor	19.12.07	**15,000**	15,000	300	550	Dec 2010	Dec 2012
	19.12.07	**15,000**	15,000	300	700	Dec 2011	Dec 2012
	12.05.08	**10,000**	–	284	684	May 2012	May 2013
D M O'Connor	19.12.07	**15,000**	15,000	300	550	Dec 2010	Dec 2012
	19.12.07	**15,000**	15,000	300	700	Dec 2011	Dec 2012
	12.05.08	**10,000**	–	284	684	May 2012	May 2013
I T Hicks	19.12.07	**15,000**	15,000	300	550	Dec 2010	Dec 2012
	19.12.07	**15,000**	15,000	300	700	Dec 2011	Dec 2012
	12.05.08	**10,000**	–	284	684	May 2012	May 2013

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 187.5p (2007: 307.5p). The range of prices for the year to 31 December 2008 was 307.5p to 180p (2007: 245p to 342p) per ordinary share.

The options granted to R N Grundy under the Phantom Share Scheme lapsed on 28 April 2008.

Report of the Remuneration Committee

(continued)

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:

	2008	2007
	£	£
D J S Taylor	**–**	9,300
D M O'Connor	**–**	7,990
R N Grundy	**–**	28,550
	–	45,840

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.

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

	Change in benefit over the year (excl inflation)	**Accrued benefit**	**Capital value of increase**
	£	**£**	**£**
A D Roper	–	98,478	–
D J S Taylor	–	26,374	–
D M O'Connor	–	25,906	–
R N Grundy	–	12,300	–
I T Hicks	–	15,675	–
	–	178,733	–

The disclosure above is in accordance with the Listing Rules.

Pensions *(continued)*

	Increase in benefit over the year (incl inflation) £	**Transfer value at 31 December 2008 £**	Transfer value at 31 December 2007 £	Increase in transfer value less Directors' contributions £
A D Roper	–	1,516,024	1,597,056	(81,032)
D J S Taylor	–	276,678	324,623	(47,945)
D M O'Connor	–	210,443	246,481	(36,038)
R N Grundy	–	119,688	115,304	4,384
I T Hicks	–	69,906	95,421	(25,515)
	–	2,192,739	2,378,885	(186,146)

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 2008 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 transfer value of the change in accrued benefits, required by the Listing Rules, discloses the current value of the increase in accrued benefits that the Director has earned in the period, whereas the change in his transfer value, required by the Companies Act, discloses the absolute increase or decrease in his transfer value and includes the change in value of accrued benefits that results from market volatility affecting the transfer value at the beginning of the period, as well as the additional value earned in the year.

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

All executive Directors are deferred members of the Churchill Retirement Benefit Scheme. The pension benefit of A D Roper is funded to allow retirement based on accrued service to 31 March 2006 on attaining the age of 60 years. A D Roper did not contribute to the Scheme. The pension benefit of D J S Taylor is funded to allow retirement between the ages of 60 and 65 with a pension based on accrued service to 31 March 2006. The pension benefits of D M O'Connor 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 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.

	2008 £	2007 £
D J S Taylor	**11,293**	10,669
D M O'Connor	**11,293**	10,663
R N Grundy (until resignation)	**3,640**	10,663
I T Hicks	**8,167**	7,122
	34,393	39,117

Report of the Remuneration Committee

continued

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 has a service contract 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 and I T Hicks were signed on 21 March 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 2008 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 2008 in the 10p ordinary shares of the Company were as follows:

	2008	2007
	£	£
A D Roper	**864,930**	864,930
D J S Taylor	**13,500**	12,000
R S Kettel	**25,000**	25,000
D M O'Connor	**5,599**	5,599
J N E Sparey	**38,100**	29,100
I T Hicks	**2,500**	2,500
J W Morgan	**28,000**	8,000
	977,629	947,129

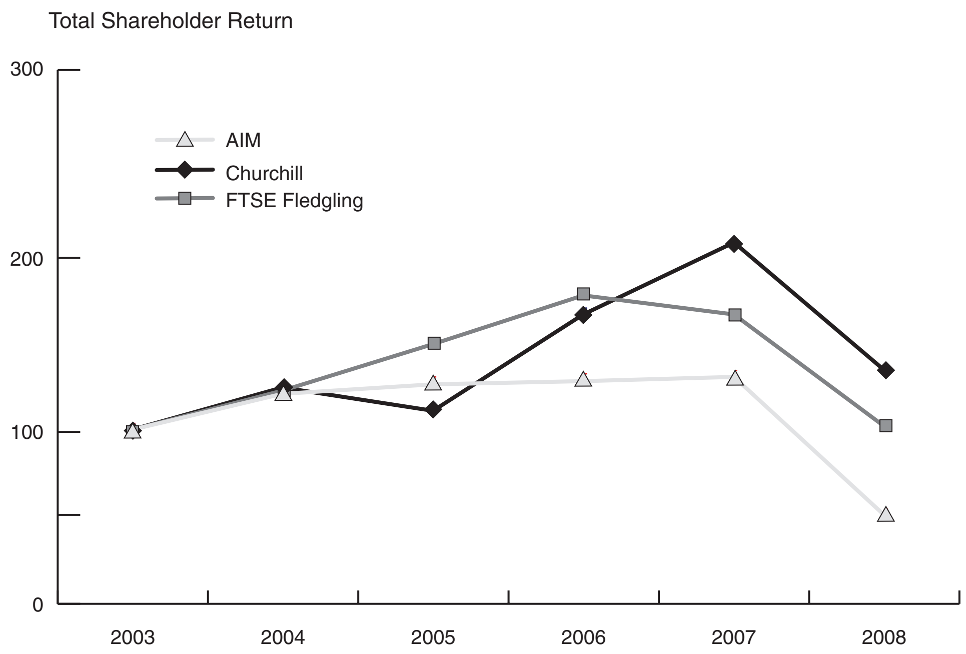
A D Roper's non-beneficial shareholdings included above at 31 December 2008 were 202,500 (2007: 202,500) 10p ordinary shares, as trustee of various trusts established for the benefit of his children.

A D Roper's interest in the 10p ordinary shares of the Company at 31 December 2008 represented 7.9% (2007: 7.9%) of the Company's issued share capital.

There has been no change in the interests set out above between 31 December 2008 and 31 March 2009.

Performance graph

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



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. Whilst total returns in the year have also been affected by the general fall in Company valuations, our overall five year return has remained positive at an average compound rate of over 6%. Over the five year period total shareholder return from the Company has been 33%, whilst that achieved by the AIM index as a whole was -50% and the FTSE Fledgling 1%. In the year to 31 December 2008 the overall return from the Company was -36%, the AIM index achieved a -62% return and the FTSE Fledgling index -39%.

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 2009

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 2008 the Company was in full compliance with the provisions of section 1 of the Combined Code except in a limited number of areas as discussed in the following paragraphs.

The Board of Directors

The Board is currently composed of four 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
A D Roper	13	13
D J S Taylor	13	13
R S Kettel	13	11
D M O'Connor	13	13
J N E Sparey	13	12
R N Grundy (until resignation)	4	4
I T Hicks	13	11
J W Morgan	13	13

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 Chief Executive Officer 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 Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing financial statements.

By order of the Board

D J S Taylor
Company Secretary

31 March 2009

CHURCHILL

Independent Auditors' Report to the Members of Churchill China plc

We have audited the Group and Company financial statements (the 'financial statements') of Churchill China plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated and 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 financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the 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 in respect of the Annual Report and the financial statements.

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 Report of the Remuneration Committee, the Corporate Governance report and all of the other information listed on the contents page. 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 2008 and of its profit and cash flows for the year then ended;
- the Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008;
- the Group and 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 2009

Consolidated Income Statement

for the year ended 31 December 2008

	Notes	Before exceptional items 2008 £'000	Exceptional items 2008 £'000	Total 2008 £'000	Before exceptional items 2007 £'000	Exceptional items 2007 £'000	Total 2007 £'000
Revenue	4	**41,969**	**–**	**41,969**	46,930	–	46,930
Operating profit before exceptional item	5	**2,804**	**–**	**2,804**	3,230	–	3,230
Exceptional item	5	**–**	**–**	**–**	–	798	798
Operating profit after exceptional item		**2,804**	**–**	**2,804**	3,230	798	4,028
Share of results of associate company	4	**(71)**	**–**	**(71)**	120	–	120
Finance income	8	**658**	**–**	**658**	730	–	730
Finance costs	8	**(29)**	**–**	**(29)**	(36)	–	(36)
Profit before income tax		**3,362**	**–**	**3,362**	4,044	798	4,842
Income tax expense	10	**(938)**	**(919)**	**(1,857)**	(1,147)	–	(1,147)
Profit for the year		**2,424**	**(919)**	**1,505**	2,897	798	3,695
Attributable to equity holders of the company				**1,505**			3,695
Earnings per ordinary share	11			**13.8p**			33.8p
Diluted earnings per share	11			**13.7p**			33.6p

All the above figures relate to continuing operations.

The notes on pages 41 to 75 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 £24,000 (2007: £65,000).

Consolidated Statement of Recognised Income and Expense

for the year ended 31 December 2008

	2008 £'000	2007 £'000
Net of tax:		
Actuarial (loss)/gain on defined benefit obligations (note 22)	**(1,022)**	1,655
Currency translation differences	**43**	3
Impact of change in UK tax rate on deferred tax (note 10)	**–**	26
Net (loss)/income recognised directly in equity	**(979)**	1,684
Profit for the year	**1,505**	3,695
Total recognised income for the year	**526**	5,379

Attributable to:

Equity holders of the company	**526**	5,379

There are no movements to be recognised through the parent Company statement of total recognised gains and losses in 2008 or 2007 and therefore no statement has been presented.

CHURCHILL

Consolidated Balance Sheet

as at 31 December 2008

	Notes	2008 £'000	2007 £'000
Assets			
Non current assets			
Property, plant and equipment	13	**13,889**	10,813
Intangible assets	14	**397**	34
Investment in associate	15	**743**	814
Deferred income tax assets	21	**586**	318
		15,615	11,979
Current assets			
Inventories	18	**8,477**	6,660
Trade and other receivables	19	**8,631**	9,606
Cash and cash equivalents		**7,738**	11,440
		24,846	27,706
Total assets		**40,461**	39,685
Liabilities			
Current liabilities			
Trade and other payables	20	**(7,466)**	(7,779)
Current income tax liabilities		**(689)**	(493)
		(8,155)	(8,272)
Non current liabilities			
Deferred income tax liabilities	21	**(1,640)**	(592)
Retirement benefit obligations	22	**(2,055)**	(1,090)
Total liabilities		**(11,850)**	(9,954)
Net assets		**28,611**	29,731
Shareholders' equity			
Issued share capital	23	**1,095**	1,095
Share premium account	23	**2,332**	2,332
Treasury shares	24	**(138)**	–
Other reserves	25	**1,236**	1,180
Retained earnings	26	**24,086**	25,124
Total equity		**28,611**	29,731

The notes on pages 41 to 75 are an integral part of these consolidated financial statements.

The financial statements on pages 35 to 75 were approved by the Board of Directors on 31 March 2009 and were signed on its behalf by:

A D Roper
D J S Taylor } *Directors*

CHURCHILL

Company Balance Sheet

as at 31 December 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Investment in associate	15	**355**	355
Investments in subsidiaries	16	**2,195**	2,203
		2,550	2,558
Current assets			
Debtors: amounts falling due after more than one year	19	**10,181**	11,847
Debtors: amounts falling due within one year	19	**137**	124
Cash at bank and in hand		**495**	480
		10,813	12,451
Creditors: amounts falling due within one year	20	**(26)**	(39)
Net current assets		**10,787**	12,412
Total assets less current liabilities		**13,337**	14,970
Net assets		**13,337**	14,970
Capital and reserves			
Called up share capital	23	**1,095**	1,095
Share premium account	23	**2,332**	2,332
Treasury shares	24	**(138)**	–
Other reserves	25	**47**	24
Profit and loss account	26	**10,001**	11,519
Total shareholders' funds		**13,337**	14,970

The notes on pages 41 to 75 are an integral part of these consolidated financial statements.

The financial statements on pages 35 to 75 were approved by the Board of Directors on 31 March 2009 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 2008

	2008 £'000	2007 £'000
Cash flow from operating activities		
Cash generated from operations (see note page 40)	**2,502**	6,307
Interest received	**444**	491
Interest paid	**(29)**	(14)
Income tax paid	**(483)**	(225)
Net cash generated from operating activities	**2,434**	6,559
Investing activities		
Purchases of property, plant and equipment	**(4,199)**	(1,413)
Proceeds on disposal of property, plant and equipment	**107**	1,107
Purchases of intangible assets	**(382)**	(25)
Dividends received	**–**	103
Net cash used in investing activities	**(4,474)**	(228)
Financing activities		
Issue of ordinary shares	**22**	71
Purchase of treasury shares	**(160)**	–
Dividends paid	**(1,531)**	(1,375)
Net cash used in financing activities	**(1,669)**	(1,304)
Net (decrease)/increase in cash and cash equivalents	**(3,709)**	5,027
Cash and cash equivalents at the beginning of the year	**11,440**	6,410
Exchange gains on cash and cash equivalents	**7**	3
Cash and cash equivalents at the end of the year	**7,738**	11,440

Reconciliation of Operating Profit to Net Cash Inflow from Continuing Activities

	2008 £'000	2007 £'000
Continuing operating activities		
Operating profit	**2,804**	4,028
Adjustments for:		
Depreciation and amortisation	**1,070**	1,002
Profit on disposal of property, plant and equipment	**(35)**	(719)
Charge for share based payments	**23**	3
Decrease in retirement benefit obligation (see note 22)	**(240)**	(240)
Changes in working capital:		
Inventories	**(1,817)**	197
Trade and other receivables	**1,021**	505
Trade and other payables	**(324)**	1,531
Net cash inflow from operations	**2,502**	6,307

Notes to the Financial Statements

for the year ended 31 December 2008

1 Summary of significant accounting policies

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 1985/2006 applicable to companies reporting under IFRS. The consolidated 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) Interpretations effective in 2008

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', 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. This interpretation does not currently have any impact on the Group's financial statements, as the Group has a pension deficit and is not subject to any minimum funding requirements.

IFRIC 11, 'IFRS 2 – Group and treasury share transactions', 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's financial statements. The Company's accounting policy for share based compensation arrangements is already in compliance with the interpretation.

(b) Interpretations effective in 2008 but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations:

- IFRIC 12, 'Service concession arrangements'; and
- IFRIC 13, 'Customer loyalty programmes'.

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- IFRS 8, 'Operating segments', replaces IAS 14, 'Segment reporting', 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. This standard is not likely to result in any change in the reporting of segmental performance.

Notes to the Financial Statements

for the year ended 31 December 2008

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 (continued)

- IAS 19 (amendment), 'Employee benefits', (effective from 1 January 2009. The amendment to the standard is still subject to endorsement by the EU.

  – The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

  – The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

  – The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

The Group will apply the IAS 19 (amendment) from 1 January 2009, subject to endorsement by the EU. The amendment is not expected to have an impact on the Company's financial statements as it does not currently operate a defined benefit obligation.

- IAS 23 (amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment to the standard is still subject to endorsement by the EU. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group and Company will apply IAS 23 (amendment) retrospectively from 1 January 2009, subject to endorsement by the EU.
- IAS 1 (revised), 'Presentation of financial statements' (effective from 1 January 2009).
- IFRS 2 (amendment), 'Share-based payment' (effective from 1 January 2009).
- IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009).
- IFRS 5 (amendment), 'Non-current assets held-for-sale and discontinued operations', (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009).
- IAS 28 (amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).
- IAS 36 (amendment), 'Impairment of assets', (effective from 1 January 2009).
- IAS 38 (amendment), 'Intangible assets', (effective from 1 January 2009).
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).
- IAS 1 (amendment), 'Presentation of financial statements', (effective from 1 January 2009).
- There are a number of minor amendments to IFRS 1 'First time adoption of IFRS', IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue', IAS 27 'Consolidated and separate financial statements', IAS 32 'Financial instruments: Presentation', IAS 34, 'Interim financial reporting' and IFRIC 16 ' Hedges of a net investment in a foreign operation'. The amendments to the standards are still subject to endorsement by the EU. These amendments, are unlikely to have an impact on the Group or Company's accounts and have, therefore, not been analysed in detail.

1 Summary of significant accounting policies *(continued)*

(d) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations
The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

- IAS 27 (amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009).
- IAS 28 (amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).
- IAS 38 (amendment), 'Intangible assets' (effective from 1 January 2009).
- The minor amendments to IAS 16 (amendment), 'Property, plant and equipment' , IAS 20 'Accounting for government grants and disclosure of government assistance', and IAS 29, 'Financial reporting in hyperinflationary economies', IAS 31 (amendment), 'Interests in joint ventures', IAS 40, 'Investment property', and IAS 41, 'Agriculture', IFRIC 15, 'Agreements for construction of real estates'. These amendments will not have an impact on the Group or Company's operations as described above.

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 and associates 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.

(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.

Notes to the Financial Statements

for the year ended 31 December 2008

1 Summary of significant accounting policies *(continued)*

(b) Associates (continued)
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.

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

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 IAS 17 - Leases. 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, material increases or reductions in pension scheme costs and material increases or decreases in taxation 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.

1 Summary of significant accounting policies *(continued)*

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.

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.

Notes to the Financial Statements

for the year ended 31 December 2008

1 Summary of significant accounting policies *(continued)*

Foreign currencies (continued)

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.

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.

1 Summary of significant accounting policies *(continued)*

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, which comprise 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.

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.

Notes to the Financial Statements

for the year ended 31 December 2008

1 Summary of significant accounting policies *(continued)*

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

Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A 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.

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 2008, 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 £46,000 (2007: £68,000) 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 £8,000 (2007: £6,000) 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 £195,000 (2007: £227,000) higher/lower, 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 2008, 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 (2007: £9,000) higher/lower. Other components of equity would have been unchanged.

(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.

Notes to the Financial Statements

for the year ended 31 December 2008

2 Financial risk management *(continued)*

Financial risk factors (continued)

Cash and cash equivalents are as follows:

	£'000
Lloyds Banking Group plc	740
National Westminster Bank plc	6,613
Other	385
	7,738

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 limited credit risk (see note 19).

(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.

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.

(a) 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 £306,000 (2007: £209,000).

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

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate the Group considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 22.

4 Segmental analysis

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

	31 December 2008			
	Hospitality £'000	**Retail £'000**	**Unallocated £'000**	**Group £'000**
Revenue	24,952	17,017	–	41,969
Contribution to Group overheads	3,668	1,709	–	5,377
Group overheads			(2,573)	(2,573)
Operating profit			(2,573)	2,804
Share of results of associated company			(71)	(71)
Finance income			629	629
Profit before income tax				3,362
Income tax expense				(1,857)
Profit for the period				1,505

Notes to the Financial Statements

for the year ended 31 December 2008

4 Segmental analysis *(continued)*

	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			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 the centralised functions of the parent Company board, finance and administration and information technology.

There are no material inter-segment revenues.

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

	31 December 2008			
	Hospitality £'000	**Retail £'000**	**Unallocated £'000**	**Group £'000**
Depreciation and amortisation	650	239	181	1,070

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

Segment assets consist primarily of property, plant and equipment, inventories, trade and other receivables and trade and other payables. 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.

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

4 Segmental analysis *(continued)*

Segment assets and liabilities at 31 December 2008 and capital expenditure for the year ended on that date are as follows:

	Hospitality £'000	Retail £'000	Unallocated £'000	Group £'000
Assets	19,390	10,301	10,027	39,718
Associates	–	–	743	743
Total assets	19,390	10,301	10,770	40,461
Liabilities	3,283	2,479	6,087	11,849
Capital expenditure	3,636	190	755	4,581

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

	Assets £'000	Liabilities £'000
Segment assets and liabilities	29,691	5,762
Unallocated:		
Central assets and liabilities	2,446	1,703
Deferred tax	586	1,640
Cash and cash equivalents	7,738	–
Current tax	–	689
Retirement benefit obligations	–	2,055
Total	**40,461**	**11,849**

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

Notes to the Financial Statements

for the year ended 31 December 2008

4 Segmental analysis *(continued)*

Segment assets 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

Any sales between segments are carried out on an arms length basis. Revenue from external parties is measured in a manner consistent with the income statement.

(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	**2008 £'000**	2007 £'000
United Kingdom	**27,538**	30,114
Rest of Europe	**8,236**	9,106
North America	**3,165**	4,974
Other	**3,030**	2,736
	41,969	46,930

The total assets of the business are allocated as follows:
United Kingdom £39,781,000 (2007: £38,886,000), Rest of Europe £64,000 (2007: £8,000), North America £564,000 (2007: £739,000), Other £52,000 (2007: £52,000).

Capital expenditure was made as follows:
United Kingdom £4,580,000 (2007: £1,429,000), Other £1,000 (2007: £9,000).

5 Expenses by nature

	Total 2008 £'000	Before exceptional items 2007 £'000	Exceptional items 2007 £'000	Total 2007 £'000
Changes in inventories of finished goods and work in progress	**(1,810)**	26	–	26
Raw materials	**2,325**	2,806	–	2,806
Employee benefit expense (note 7)	**15,817**	16,592	–	16,592
Other external charges	**21,798**	23,195	–	23,195
Depreciation and impairment charges	**1,070**	1,002	–	1,002
Loss/(profit) on disposal of property, plant and equipment	**(35)**	79	(798)	(719)
Total cost of sales distribution and administration expenses	**39,165**	43,700	(798)	42,902

Exceptional items

Please refer to note 10 for disclosures relating to the exceptional taxation provision made in 2008.

The profit on disposal of property recognised in 2007 was in relation to the sale of surplus land at Sandyford in November 2007. A taxation charge of £nil was 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 2007.

6 Average number of people employed

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

	2008 Number	2007 Number
By activity		
Production	**372**	413
Sales and administration	**227**	225
	599	638

The Company had no employees.

Notes to the Financial Statements

for the year ended 31 December 2008

7 Employee benefit expense

	2008 £'000	2007 £'000
Staff costs (for the employees shown in note 6)		
Wages and salaries	**13,972**	14,748
Social security costs	**1,200**	1,249
Defined contribution pension cost (see note 22)	**459**	434
Other pension costs (see note 22)	**163**	158
Share options granted to directors and employees (see note 25)	**23**	3
	15,817	16,592

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

	2008 £'000	2007 £'000
Interest income and short term deposits	**444**	491
Interest on pension scheme	**214**	239
Finance income	**658**	730
Other interest	**(29)**	(14)
Impairment of available for sale financial asset	**–**	(22)
Finance costs	**(29)**	(36)
Net finance income	**629**	694

9 Auditors' remuneration

	2008 £'000	2007 £'000
Amounts paid to the Group's auditors were as follows:		
Audit services – audit of subsidiaries	**69**	65
Audit services – audit of parent and consolidated financial statements (Company £1,500, 2007: £1,500)	**7**	17
Non-audit services – taxation advice	**34**	26
	110	108

10 Income tax expense

	2008 £'000	2007 £'000
Group		
Current tax	**680**	528
Deferred tax (note 21)		
Origination and reversal of temporary differences	**258**	626
Origination of temporary differences – exceptional	**919**	–
Impact of change in UK tax rate	**–**	(7)
	1,857	1,147

During the year, the UK tax regime in relation to Industrial Buildings Allowances (IBAs) was changed following the enactment of certain provisions contained in the Finance Act 2008. As a result IBAs will now be phased out in the period 2008 to 2011. The Group has provided £919,000 (2007: £nil) for the deferred tax liability arising from this change and the charge has been treated as exceptional. There was no cash outflow in relation to this change in the year.

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:

	2008 £'000	2007 £'000
Profit before income tax	**3,362**	4,842
Tax calculated at domestic tax rates applicable to profits in the respective countries	**959**	1,439
Income not subject to tax	**–**	(31)
Expenses not deductible for tax purposes	**20**	31
Utilisation of previously unrecognised capital tax losses	**–**	(240)
Deferred tax on withdrawal of IBAs (see above)	**919**	–
Tax losses for which no deferred income tax asset was recognised	**–**	(49)
Remeasurement of deferred tax due to change in UK tax rate	**–**	(7)
Other	**(41)**	4
Tax charge	**1,857**	1,147

The weighted average applicable tax rate was 28.5% (2007: 30%).

There was no tax on the exceptional profit from sale of land in 2007 due to the offset of capital losses.

During the year a credit of £397,000 (2007: charge of £724,000 less a credit of £26,000 in relation to the revaluation reserve) in relation to deferred tax arising from actuarial gains and losses on the Group's defined benefit pension obligation were adjusted directly within equity.

Notes to the Financial Statements

for the year ended 31 December 2008

11 Earnings per ordinary share

The basic earnings per ordinary share is based on the profit after income tax and on 10,923,038 (2007: 10,933,561) 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 property, plant and equipment and the recognition of deferred liabilities. The Directors believe that adjusted earnings per share more closely reflects the underlying performance of the Group.

	2008 Pence per share	2007 Pence per share
Basic earnings per share (Based on earnings £1,505,000 (2007: £3,695,000))	**13.8**	33.8
Adjustments – exceptional items:		
Profit on disposal of property, plant and equipment	**–**	(7.3)
Deferred taxation – Industrial Buildings Allowances (note 10)	**8.4**	–
Adjusted earnings per share	**22.2**	26.5

Diluted basic earnings per ordinary share is based on the profit after income tax and on 10,965,990 (2007: 11,007,289) ordinary shares, being the weighted average number of ordinary shares in issue during the year of 10,923,038 (2007: 10,933,561) increased by 42,952 (2007: 73,728) 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 property, plant and equipment and the recognition of deferred tax liabilities.

	2008 Pence per share	2007 Pence per share
Diluted basic earnings per share (Based on earnings £1,505,000 (2007: £3,695,000))	**13.7**	33.6
Adjustments – exceptional items:		
Profit on disposal of property, plant and equipment	**–**	(7.3)
Deferred taxation – Industrial Buildings Allowances (note 10)	**8.4**	–
Diluted adjusted earnings per share	**22.1**	26.3

12 Dividends

The dividends paid in the year were as follows:

Ordinary	**2008 £'000**	2007 £'000
Final 2007 9.2p per 10p ordinary share (Final 2006: 8.1p)	**1,007**	883
Interim 2008 4.8p per 10p ordinary share paid (Interim 2007: 4.5p)	**524**	492
	1,531	1,375

A final dividend of 9.2p per 10p ordinary share for the year to 31 December 2008 will be proposed at the Annual General Meeting amounting to a total dividend of £1,003,000. These financial statements do not reflect the final dividend to be proposed at the Annual General Meeting.

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	Fixtures and fittings £'000	Total £'000
At 1 January 2007					
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**
Year ended 31 December 2008					
Opening net book amount	7,863	2,153	533	264	10,813
Additions	2,067	1,478	300	354	4,199
Disposals	–	–	(72)	–	(72)
Depreciation charge (note 5)	(143)	(573)	(177)	(158)	(1,051)
Closing net book amount	**9,787**	**3,058**	**584**	**460**	**13,889**
At 31 December 2008					
Cost	11,503	14,696	956	1,946	29,101
Accumulated depreciation	(1,716)	(11,638)	(372)	(1,486)	(15,212)
Net book amount	**9,787**	**3,058**	**584**	**460**	**13,889**

Notes to the Financial Statements

for the year ended 31 December 2008

14 Intangible assets

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

	Computer software £'000
Group	
At 1 January 2007	
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**
Year ended 31 December 2008	
Opening net book amount	34
Additions	382
Amortisation charge (note 5)	(19)
Closing net book amount	**397**
At 31 December 2008	
Cost	578
Accumulated amortisation and impairment	(181)
Net book amount	**397**

15 Investment in associate

	Group		Company	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Cost				
At 1 January	**1,487**	1,470	**355**	355
Share of (loss)/profit	**(20)**	120	**–**	–
Dividends received during the year	**–**	(103)	**–**	–
At 31 December	**1,467**	1,487	**355**	355
Impairment				
At 1 January	**673**	673	**–**	–
Impairment of investment in associate	**51**	–	**–**	–
At 31 December	**724**	673	**–**	–
Net book value				
Closing net book amount	**743**	814	**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.

	2008	2007
	£'000	£'000
Share of associate's assets	**1,932**	2,047
Share of associate's liabilities	**(417)**	(504)
Share of associate's net assets	**1,515**	1,543

The total revenue of Furlong Mills Limited for its year ended 31 December 2008 was £5,928,000 (2007: £6,533,000) and loss before tax was £124,000 (2007: profit £505,000). During the year the Group purchased raw materials to a value of £1,672,000 (2007: £2,045,000) from Furlong Mills Limited.

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 the year reflects management's view of the ongoing benefits that could be derived from the 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.

Notes to the Financial Statements

for the year ended 31 December 2008

16 Investment in subsidiary undertakings

	Company 2008 £'000	Company 2007 £'000
Cost or valuation		
At 1 January and 31 December 2008	**2,627**	2,627
Impairment		
At 1 January 2008	**424**	424
Impairment during the year	**8**	–
At 31 December 2008	**432**	424
Net book value		
At 31 December 2008	**2,195**	2,203

The above impairment reduces the carrying value of the Company's investment in a number of dormant 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 and 31 December 2008	22	43
Impairment		
At 1 January and 31 December 2008	22	43
Net book value		
At 1 January and 31 December 2008	–	–

The above represents 35.9% (2007: 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 and does not exercise significant influence over Shraff Management Limited, taking into account other large third party shareholdings.

18 Inventories

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

	2008 £'000	2007 £'000
Raw materials	**33**	26
Work in progress	**530**	736
Finished goods	**7,914**	5,898
	8,477	6,660

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 £24,622,000 (2007: £28,112,000).

Notes to the Financial Statements

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19 Trade and other receivables

	Group		Company	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Trade receivables	**8,559**	9,221	**–**	–
Less: provision for impairment of trade receivables	**(108)**	(9)	**–**	–
Trade receivables – net	**8,451**	9,212	**–**	**–**
Other	**5**	5	**–**	–
Prepayments	**175**	389	**–**	–
Receivables from related parties	–	–	**10,318**	11,971
	8,631	9,606	**10,318**	11,971
Less non-current portion: loans to related parties	–	–	**10,181**	11,847
Current portion	**8,631**	9,606	**137**	124

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 2008, trade receivables of £7,570,000 (2007: £8,109,000) were fully performing.

As of 31 December 2008, trade receivables of £867,000 (2007: £1,073,000) were past due but not impaired. The ageing of these receivables is as follows:

	2008	2007
	£'000	£'000
Up to 3 months	**795**	1,036
3 to 6 months	**53**	14
Over 6 months	**19**	23
	867	1,073

As of 31 December 2008 trade receivables with a gross value of £122,000 (2007: £39,000) were impaired and provided for. The amount of provision for 31 December 2008 was £108,000 (2007: £9,000). 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:

	2008	2007
	£'000	£'000
Up to 3 months	**107**	33
Over 6 months	**15**	6
	122	39

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

19 Trade and other receivables *(continued)*

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

	2008 £'000	2007 £'000
At 1 January	**9**	23
Provision for receivables impairment	**108**	9
Receivables written off during the year as uncollectible	**(9)**	(23)
At 31 December	**108**	9

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 are within trade and other receivables do not contain impaired assets.

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

	2008 £'000	2007 £'000
Pounds	**6,258**	7,417
Euros	**763**	1,300
US dollar	**1,610**	889
	8,631	9,606

During the year the Group had gains of £652,000 (2007: £50,000) on 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 £1,298,000 (2007: £575,000) and the sale of US dollars of £696,000 (2007: £nil). These contracts are held at their fair value with a loss of £149,000 (2007: £12,000) recognised in relation to the contracts outstanding at the year end.

Company

As of 31 December 2008, Company receivables from related parties of £10,318,000 (2007: £11,971,000) were fully performing.

The carrying amounts of the Company's receivables are denominated in the following currencies:

	2008 £'000	2007 £'000
Pounds	**10,289**	11,956
US dollar	**29**	15
	10,318	11,971

Notes to the Financial Statements

for the year ended 31 December 2008

20 Trade and other payables

	Group		Company	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Trade payables	**3,432**	2,192	**–**	–
Amounts due to related parties	**45**	114	**13**	13
Social security and other taxes	**578**	1,000	**10**	25
Accrued expenses	**3,411**	4,473	**3**	1
	7,466	7,779	**26**	39

All the above liabilities mature within twelve months from 31 December 2008.

Note 19 shows the losses/gains on forward option contracts that have been recognised in the Income Statement. As at 31 December the Group held forward exchange contracts for the purchase of US dollars of £nil (2007: £122,000). These contracts are held at their fair value with a gain of £nil (2007: £4,000) 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:

	2008	2007
Group	**£'000**	£'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**576**	182
– Deferred tax asset to be recovered within 12 months	**10**	136
	586	318
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	**(1,637)**	(559)
– Deferred tax liabilities to be recovered within 12 months	**(3)**	(33)
	(1,640)	(592)
Deferred tax liabilities (net)	**(1,054)**	(274)

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

	2008	2007
	£'000	£'000
At 1 January 2008	**(274)**	1,043
Income statement charge (note 10)	**(1,177)**	(619)
Tax credited/(charged) directly to equity (note 26)	**397**	(698)
At 31 December 2008	**(1,054)**	(274)

21 Deferred income tax *(continued)*

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

Deferred tax liabilities	**Accelerated tax depreciation £'000**	**Land and buildings revaluation £'000**	**Total £'000**
At 1 January 2007	172	382	554
Charged to the income statement	67	–	67
Credited directly to equity	–	(29)	(29)
At 31 December 2007	239	353	592
Charged to the income statement	1,050	(2)	1,048
At 31 December 2008	**1,289**	**351**	**1,640**

Deferred tax assets	**Retirement benefit obligation £'000**	**Other £'000**	**Total £'000**
At 1 January 2007	(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)
Charged to the income statement	128	1	129
Credited directly to equity	(397)	–	(397)
At 31 December 2008	**(576)**	**(10)**	**(586)**

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

	2008 £'000	2007 £'000
Fair value reserves in shareholders' equity:		
Tax on actuarial (loss)/gain on retirement benefits scheme	**(397)**	724
Impact of change in UK tax rate on deferred tax	**–**	(26)
	(397)	698

Deferred income tax of £2,000 (2007: £3,000) was transferred from other reserves (note 25) to retained earnings (note 26). 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 has not recognised deferred income tax assets of £1,511,000 (2007: £1,511,000) in respect of capital losses amounting to £5,395,000 (2007: £5,395,000) that can be carried forward against future capital gains.

Notes to the Financial Statements

for the year ended 31 December 2008

22 Retirement benefit obligations

	2008 £'000	2007 £'000
Balance sheet obligations		
Pension benefits	**2,055**	1,090
Income statement credit		
Pension benefits	**–**	–

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 £622,000 (2007: £592,000 less an exceptional credit of £1,150,000 re curtailment benefits giving a net credit of £428,000). Of this cost £nil (2007: credit of £nil), related to the Churchill Group Retirement Benefit Scheme, £180,000 (2007: £160,000) was in respect of the Churchill China 1999 Pension Scheme and £274,000 (2007: £271,000) 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 (2007: £20,000).

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 (2007: £240,000) was made in respect of the amortisation of past service liabilities. The forward funding rate of the Scheme was agreed with the Scheme Trustees and Actuary following the completion of the 31 May 2008 triennial actuarial valuation in March 2009. The Group expects to make payments of £391,000 in 2009 and £498,000 per annum thereafter in respect of the amortisation of past service deficits.

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

	2008 £'000	2007 £'000
Present value of funded obligations	**25,275**	29,209
Fair value of plan assets	**(23,220)**	(28,119)
Liability in balance sheet	**2,055**	1,090

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

	2008 £'000	2007 £'000
At 1 January 2008	**29,209**	30,960
Interest cost	**1,694**	1,579
Actuarial gains	**(5,044)**	(2,571)
Benefits paid	**(584)**	(759)
At 31 December 2008	**25,275**	29,209

22 Retirement benefit obligations *(continued)*

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

	2008	2007
	£'000	£'000
At 1 January 2008	**28,119**	27,012
Expected return on plan assets	**1,908**	1,818
Actuarial losses	**(6,463)**	(192)
Employer contributions	**240**	240
Benefits paid	**(584)**	(759)
At 31 December 2008	**23,220**	28,119

Plan assets are comprised as follows:

	2008		2007		2006	
	£'000		£'000		£'000	
Equity investments	**12,545**	**54%**	19,701	70%	20,215	75%
Debt investments	**4,756**	**20%**	2,584	9%	1,893	7%
Other	**5,919**	**26%**	5,834	21%	4,904	18%
	23,220		28,119		27,012	

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:

	2008	2007
	£'000	£'000
Interest cost	**1,694**	1,579
Expected return on plan assets	**(1,908)**	(1,818)
Net credit recognised in finance income	**(214)**	(239)

The actual loss on plan assets was £4,555,000 (2007: return £1,618,000).

Notes to the Financial Statements

for the year ended 31 December 2008

22 Retirement benefit obligations *(continued)*

A history of experience gains and losses, since the adoption of IAS19, as at 31 December would have been as follows:

	2008	2007	2006
	£'000	£'000	£'000
Difference between the expected and actual return on scheme assets:			
Amount	**6,463**	(200)	839
Percentage of scheme assets	**28%**	1%	3%
Experience gains and losses on scheme liabilities:			
Amount	**372**	(192)	310
Percentage of present value of scheme liabilities	**1%**	1%	1%
Total amount recognised in statement of recognised income and expense (SORIE):			
Amount	**1,419**	2,379	1,110
Percentage of present value of scheme liabilities	**6%**	8%	4%

The principal actuarial assumptions used were as follows:

Pension benefits

	2008 % per annum	2007 % per annum	2006 % per annum
Discount rate	**6.6%**	5.8%	5.1%
Inflation rate	**2.9%**	3.2%	3.1%
Expected return on plan assets	**6.0%**	6.8%	6.8%
Rate of increase of pensions in payment	**2.9%**	3.2%	3.1%
Rate of increase of deferred pensions	**2.9%**	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:

	2008 Number	2007 Number
Male	**20.7**	20.2
Female	**24.0**	23.1

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

	2008 Number	2007 Number
Male	**22.6**	21.3
Female	**26.0**	24.0

Sensitivity

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

The effect of a 0.25% increase/decrease in the Discount rate to 6.85% would be to reduce/increase scheme liabilities by £1,194,000 (4.7%).

The effect of a 0.25% increase/decrease in inflation to 3.15% would increase/decrease scheme liabilities by £898,000 (3.6%).

The effect of a 1 year increase to life expectancy would increase scheme liabilities by £539,000 (2.1%). The effect of a 1 year reduction in life expectancy would be to reduce scheme liabilities by £568,000 (2.2%).

23 Issued share capital and premium

Group and Company	Number of shares 000s	Ordinary shares £'000	Share premium £'000
At 1 January 2007	10,902	1,090	2,266
Employee share option schemes	46	5	66
At 31 December 2007	10,948	1,095	2,332
Employee share option schemes	–	–	–
At 31 December 2008	**10,948**	**1,095**	**2,332**

The total authorised number of ordinary shares is 14,300,000 (2007: 14,300,000) with a par value of 10p (2007: 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

Notes to the Financial Statements

for the year ended 31 December 2008

23 Issued share capital and premium *(continued)*

The following options exercisable over ordinary shares were outstanding at 31 March 2009:

Number of shares	2008	2007	Exercise price	Date from which exercisable	Expiry date
The Executive share option scheme					
	2,000	2,000	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	21,500	151p	December 2003	December 2010
	40,000	53,000	171p	April 2005	April 2012
	43,000	53,000	208p	April 2007	April 2014
	166,000	189,000			

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 2008 is set out below.

	2008 Number '000	**2008 Weighted average exercise price**	2007 Number '000	2007 Weighted average exercise price
Outstanding at 1 January	**189,000**	**184.6p**	234,750	178.7p
Forfeited/lapsed	**(10,000)**	**208.0p**	–	–
Exercised	**(13,000)**	**171.0p**	(45,750)	154.1p
Outstanding at 31 December	**166,000**	**184.3p**	189,000	184.6p
Exercisable at 31 December	**166,000**	**184.3p**	89,000	158.3p

There were no share options granted during the year.

	2008 Weighted average exercise price	**2008 Number '000**	**2008 Weighted average remaining life (expected)**	**2008 Weighted average remaining life (contractual)**	2007 Weighted average exercise price	2007 Number '000	2007 Weighted average remaining life (expected)	2007 Weighted average remaining life (contractual)
100p-149p	**118.5p**	**12,500**	**0.0**	**1.3**	118.5p	12,500	0.0	2.3
150p-199p	**163.6p**	**63,500**	**0.0**	**2.9**	164.9p	76,500	0.0	3.9
200p-250p	**208.0p**	**90,000**	**0.3**	**5.3**	208.0p	100,000	1.3	6.3

The weighted average share price for options exercised in the period was 171.0p (2007: 154.1p). The total charge during the year for employee share based payment plans was £nil (2007: £3,000), all of which related to equity settled share based payment transactions.

24 Treasury shares

	£'000
As at 1 January 2008	–
Purchase of own shares	160
Re-issue of shares	(22)
As at 31 December 2008	**138**

During the year the Group repurchased 58,400 10p ordinary shares and re-issued 13,000 of these under employee share option schemes. The Group currently holds 45,400 shares in Treasury.

25 Other reserves

Group

	Land and buildings revaluation £'000	Currency translation £'000	Share based payment £'000	Other reserves £'000	Total £'000
Balance at 1 January 2007	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
Depreciation transfer – gross	(12)	–	–	–	(12)
Depreciation transfer – tax	2	–	–	–	2
Share based payment	–	–	23	–	23
Currency translation	–	43	–	–	43
Balance at 31 December 2008	**900**	**36**	**47**	**253**	**1,236**

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 took 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 £47,000 (2007: £24,000) represent provision for share based payment as shown in the above table.

Notes to the Financial Statements

for the year ended 31 December 2008

26 Retained earnings

	Group £'000	Company £'000
At 1 January 2007	21,140	12,829
Profit for the year	3,695	65
Dividends paid in 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
At 1 January 2008	25,124	11,519
Profit for the year	1,505	13
Dividends paid in 2008	(1,531)	(1,531)
Depreciation transfer on land and buildings net of tax	10	–
Actuarial losses net of tax	(1,022)	–
At 31 December 2008	**24,086**	**10,001**

27 Commitments

Capital commitments

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

	Group		Company	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000
Property, plant and equipment	**1,632**	1,051	**–**	–
Intangible assets: Computer software	**220**	–	**–**	–
	1,852	1,051	**–**	–

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	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000
Payments under operating leases charged against income during the year	**50**	98	**–**	–
Future aggregate minimum commitments under non-cancellable operating leases:				
No later than one year	**17**	26	**–**	–
Later than one year and no later than five years	**11**	52	**–**	–

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

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

	2008	2007
	£'000	£'000
Associates		
Dividends received from Furlong Mills Limited	**–**	103
Subsidiaries		
Management charge to Churchill China, Inc	**7**	5
Interest received from Churchill China, Inc	**1**	–
Interest received from Churchill China (UK) Limited	**18**	9
Loans repaid – Churchill China (UK) Limited	**1,684**	1,388
Loans outstanding at the year end (mainly Churchill China (UK) Limited)	**10,318**	11,971

29 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 2008 and 2007.

Five Year Financial Record

	2004 UK GAAP £'000	2005 UK GAAP £'000	2006 IFRS £'000	2007 IFRS £'000	**2008** **IFRS** **£'000**
Turnover	47,752	44,835	45,930	46,930	**41,969**
Operating profit before exceptional items	3,220	2,696	2,795	3,230	**2,804**
Share of results of associate net of impairment	100	(21)	(7)	120	**(71)**
Finance income/(cost)	(44)	(114)	294	694	**629**
Profit on ordinary activities before profit on disposal of property and exceptional items	3,276	2,561	3,082	4,044	**3,362**
Exceptional items	(866)	–	784	–	**–**
Profit on disposal of property	19	269	1,876	798	**–**
Profit before taxation	2,429	2,830	5,742	4,842	**3,362**
Income tax expense	(703)	(152)	(1,631)	(1,147)	**(938)**
Income tax expense – exceptional	–	–	–	–	**(919)**
Profit after taxation	1,726	2,678	4,111	3,695	**1,505**
Dividends	(1,117)	(1,194)	(1,217)	(1,375)	**(1,531)**
Net assets employed	20,113	22,446	25,653	29,731	**28,612**
Ratios					
Operating margin before exceptional items	6.7%	6.0%	6.1%	6.9%	**6.7%**
Basic earnings per share (p)	16.0	24.7	37.7	33.8	**13.8**
Adjusted earnings per share (p)	21.5	17.6	20.5	26.5	**22.2**

The adjusted earnings per share is based on the profit on ordinary activities after taxation and adjusted to take into account exceptional items, profit on disposal of fixed assets and the recognition of related deferred tax assets. 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 Tuesday 19 May 2009 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 2008 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 2008 be declared.

3. That J N E Sparey be re-elected as a Director.

4. That D J S Taylor be re-elected as a Director.

5. That the Auditors, PricewaterhouseCoopers LLP, be re-appointed and that the Directors be authorised to fix their remuneration for the year ending 31 December 2009.

6. That the Directors' Remuneration Report for the year ended 31 December 2008 be approved.

7. That the phantom share scheme contained in the document produced to the Meeting and initialled by the Chairman for the purpose of identification be approved.

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

8. That the Directors of the Company be empowered pursuant to Section 95(1) of the Companies Act 1985 ("the Act") to allot equity securities (as defined in Section 94(2) of the Act) pursuant to the authority under Section 80 of the Act granted by resolution of the Company passed on 21 May 2008, 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 £54,512;

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

9. That, in accordance with Chapter VII of Part V of the Act, the Company be generally and unconditionally authorised for the purposes of Section 166 of the Act to make market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 10p each in the capital of the Company ("Ordinary Shares") on such terms and in such manner as the Directors of the Company may from time to time determine, provided that:

   (a) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 1,090,247 representing approximately 10 per cent of the present issued share capital of the Company (excluding treasury shares);

   (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 Alternative Investment Market section of 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.

10. That with effect from 00.01am on 1 October 2009:

   (a) the Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of section 28 Companies Act 2006, are to be treated as provisions of the Company's Articles of Association; and,

   (b) 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.

11. That a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice.

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 21 April 2009

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, West Sussex BN99 6DA, 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 Articles of Association (both existing and as proposed to be adopted).

3. Item 7 in the Notice of Annual General Meeting is a resolution to approve a new phantom share scheme for the Company. The share option schemes previously used by the Company have now expired and the Directors wish to adopt a new scheme in order to provide long term incentives to employees. The proposed scheme is identical, in all material respects, including likely levels of grant and performance conditions to the Churchill China plc Phantom Share Scheme approved by the Company on 13 May 1998, updated to take account of legislative changes and changes in practice. A copy of the new scheme is available on the Company's website www.churchillchina.plc.uk.

4. Item 8 in the notice of Annual General Meeting is a special resolution to empower the Directors at any time prior to the conclusion of the 2010 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 £54,512 (equivalent to 545,123 ordinary shares, representing approximately 5 per cent of the present issued share capital excluding treasury shares). This resolution will also empower the Directors (within the period mentioned above) to allot pursuant to the authority under section 80 of the Companies Act 1985 which was granted at the 2008 Annual General Meeting up to 3,612,799 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.

5. Item 9 in the notice of Annual General Meeting is a special resolution to allow the Company at any time prior to the conclusion of the 2010 Annual General Meeting to repurchase up to 1,090,247 ordinary shares (representing approximately 10 per cent of the present issued share capital excluding treasury shares). 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.

6. Item 10 in the Notice of Annual General Meeting is a resolution to adopt new Articles of Association (" the New Articles") in order to update the Company's current Articles of Association primarily to take account of the implementation on 1 October 2009 of the last part of the Companies Act 2006. The resolution adopting the New Articles will only become effective on 1 October 2009.

   The principal changes being proposed in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature, have not been noted.

   The New Articles showing all the changes to the current Articles are available for inspection as set out in note 2 above and on the Company's website www.churchillchina.plc.uk.

   (a) Article 3: this is an express statement regarding the limited liability of the shareholders. This is required to be inserted here as a result of the removal of the Company's objects clause together with all other provisions of its Memorandum of Association;

   (b) Deletion of Article 4: the Companies Acts 2006 abolishes the requirement for a company to have an authorised share capital and the deletion of these Articles reflects this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employee share schemes;

   (c) Article 6: the Companies Act 2006 enables directors to determine the terms and manner of redemption of any redeemable shares a company may wish to issue provided they are so authorised by the Articles. Article 6 has been amended to provide this authorisation. The Company has no plans to issue redeemable shares but if it did so the Directors would need shareholders' authority to issue new shares in the usual way;

   (d) Deletion of Article 36: under the Companies Act 2006, share transfers must be registered as soon as practicable. The power in Article 36 to suspend the registration of transfers is inconsistent with this requirement and has been deleted accordingly;

   (e) Article 41: this Article has been expanded for the sake of completeness and certainty;

Notice of Annual General Meeting

continued

(f) Amendment of Article 43, and deletion of Articles 45 and 46: under the Companies Act 2006, a company will only require shareholder authority to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves, and it will no longer be necessary for articles to contain enabling provisions in this respect. Accordingly the relevant enabling provisions have been amended or deleted;

(g) Article 89: this has been amended to reflect the approach taken on mental and physical incapacity in the model articles for public companies produced by the Department for Business, Enterprise and Regulatory Reform;

(h) Article 109: the Companies Act 2006 provides that the powers of the directors of a company to make provision for a person employed or formerly employed by the company or any of its subsidiaries in connection with the cessation or transfer to any person of the whole or any part of the undertaking of the company or that subsidiary, may only be exercised by the directors if they are so authorised by the company's articles or by the company in general meeting. The New Articles provide that the Directors may exercise this power;

(i) Deletion of Articles 126.1 and 127.1: when introduced into the Articles at the 2008 Annual General Meeting, these Articles anticipated legislative changes to take effect on 1 October 2008. With the passage of time, it is now appropriate to delete Articles 126.1 and 127.1;

(j) Article 131.1 (b): the New Articles provide an alternative option for execution of documents (other than share certificates). Under the New Articles, when the seal is affixed to a document it may be signed by one authorised person in the presence of a witness, whereas previously the requirement was for signature by either a director and the secretary, or two directors, or such other person or persons as the directors may approve;

(k) Deletion of Article 137: after 1 October 2009 a company will no longer require authority in its articles to have an official seal for use abroad, and this authority is deleted accordingly.

7. Item 11 in the Notice of Annual General Meeting is required to reflect the proposed implementation in August 2009 of the Shareholders Rights Directive. The regulation implementing this Directive will increase the notice period for general meetings of the Company to 21 days. The Company is currently able to call general meetings (other than an AGM) on 14 days clear notice and would like to preserve this ability. In order to be able to do so after August 2009, shareholders must have approved the calling of meetings on 14 days' notice. Resolution 10 seeks such approval. The approval will be effective until the Company's next annual general meeting when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Directive before it can call a general meeting on 14 days' notice.

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 15 May 2009 (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.

CHURCHILL

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