CHURCHILL
China plc

Annual Report
2009

Contents

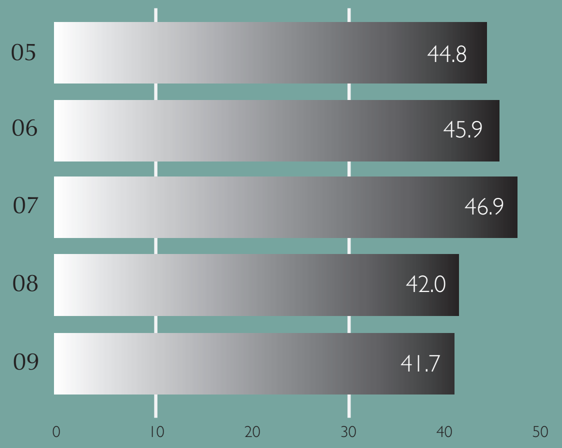
Front: Sanderson 'Dandelion Clocks'
Inside Cover: Art de Cuisine 'Tilt Bowls'

Financial Highlights

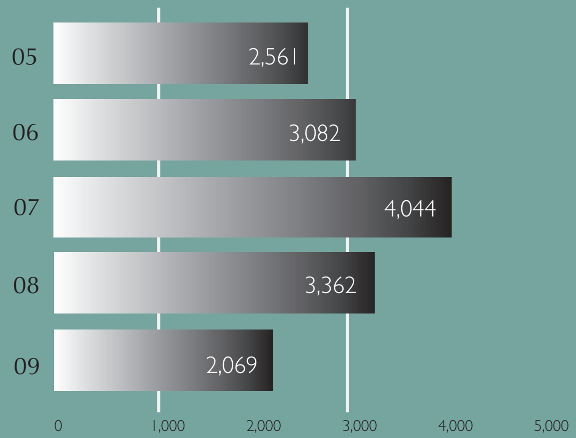
	2009	2008
	£'000	£'000
Results		
Revenue – continuing operations	**41,705**	41,969
Operating profit – continuing operations	**2,288**	2,804
Share of results of associate company	**(18)**	(71)
Net finance (cost)/income	**(201)**	629
Profit before income tax	**2,069**	3,362
Dividends paid	**1,526**	1,531
Key Ratios		
Operating margin	**5.5%**	6.7%
Basic earnings per share	**14.3p**	13.8p
Adjusted basic earnings per share	**14.3p**	22.2p
Diluted earnings per share	**14.2p**	13.7p
Adjusted diluted earnings per share	**14.2p**	22.1p
Dividends paid per share	**14.0p**	14.0p

The adjusted EPS excludes exceptional items (see note 11). Exceptional items related to deferred taxation in 2008.

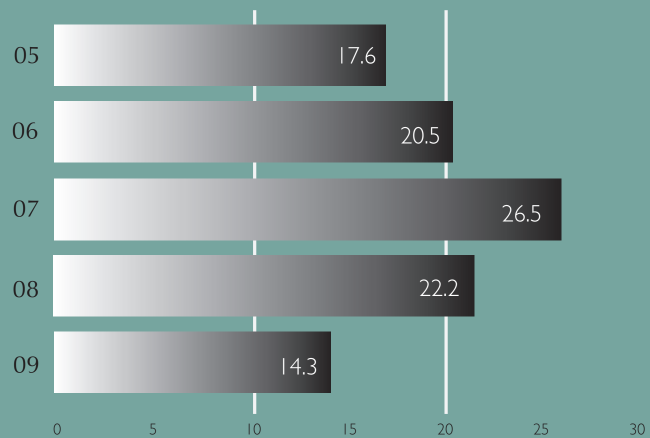
5 Year **Performance**



Revenue (£m)



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



Adjusted basic earnings per share (p)

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 *•

COMPANY SECRETARY AND REGISTERED OFFICE

D J S Taylor ACA

Marlborough Pottery

High Street

Tunstall

Stoke-on-Trent

Staffordshire

ST6 5NZ

INDEPENDENT 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 Securities

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

Chairman's Statement Introduction

“A solid performance... achieving key objectives”

I am pleased to report a solid performance for Churchill China in 2009, achieving the key objectives we set out at the beginning of the year. These included a sustained level of investment, reduction in stock levels, tight working capital management and preservation of a strong balance sheet with good cash position. 2009 was an unpredictable year characterised by global recession, uneven demand, a weakening UK currency and very challenging operating conditions. In the circumstances, we demonstrated the resilience of the Churchill business. Our Group revenues were flat against last year but pre-tax profit of £2.1m was lower largely due to the impact of reduced interest received on our circa £7m cash balance. The second half showed a pronounced improvement in operating profitability and this positive trend is continuing.

Disney – Friend Forever Breakfast Set

Art de Cuisine – Menu Bitesize

"A sustained level of investment"

Right: Jamie Oliver 'Fluted Blue'
© Dan Jones 2010

Financial Review

"We have continued to target long term shareholder return and are pleased that we have delivered a compound return to shareholders in excess of 11% per annum over the last five years."

Above: Churchill Super Vitrified 'Profile'

Group revenues fell by 0.6% to £41.7m (2008: £42.0m) reflecting lower demand in many of our export markets largely offset by good sales levels in the UK in both hospitality and retail markets.

Group operating profit was £2.3m (2008: £2.8m) and our pre-tax profit was 39% lower at £2.1m (2008: £3.4m).

Overall margins were lower than the corresponding period in 2008, reflecting a strategic decision to adjust output to reduce inventory levels in a period of lower demand. We recognised that this would lead to a less than optimal manufacturing position in 2009 but will give us increased operational flexibility in 2010.

Last year our results benefited from £0.6m of net interest receipts. In 2009 this figure fell substantially to a net cost of £0.2m, an adverse effect on profit before tax of £0.8m. Cash interest receipts were reduced at £0.1m (2008: £0.4m) as rates remained low. Additionally, a significant notional charge of £0.3m (2008: credit £0.2m) arose from our pension fund as higher discount rates in 2008 reversed. We currently expect this latter effect to be mitigated in 2010.

Adjusted earnings per share decreased by 36% to 14.3p (2008: 22.2p) whilst basic earnings per share, including exceptional items, were 14.3p (2008: 13.8p).

We continued to show good cash generation from operations, especially in the second half. Cash balances remain strong at £6.9m (2008: £7.7m) reflecting excellent management of working capital, particularly inventories which were reduced from £8.5m in 2008 to £7.1m. We incurred capital expenditure of £2.4m (2008: £4.6m) as we completed our major new warehouse project and continued to invest selectively in our UK manufacturing base to improve efficiency.

Pension Fund

In common with most other UK companies the deficit on the Churchill China final salary scheme has widened from £2.1m to £7.7m attributable to an unusual combination of factors: depressed economic conditions, the impact of quantitative easing on discount rates and increasing inflation expectations. Churchill increased its annual cash payments to £0.5m from £0.2m and can make further payments given our balance sheet strength should this be required. We view the 2009 outcome as anomalous and expect the deficit to reduce during 2010 but the position will be reviewed further later this year.

Dividend and Shareholder Return

We again delivered a respectable performance in a demanding year and the Board decided to accelerate payment of the final dividend of 9.2p per share (2008: 9.2p) from May to March to preserve net value to shareholders. The Directors recommend no further dividend in respect of 2009 leaving the total paid for the year unchanged at 14.0p per share.

Churchill's share price increased by 47% during 2009 which, coupled with our maintained dividend, delivered strong returns to shareholders. We have continued to target long term shareholder return and are pleased that we have delivered a compound return to shareholders in excess of 11% per annum over the last 5 years.

Disney – Hundred Acre Wood

Jamie Oliver – Cheeky Mugs

Cath Kidston – Gingham Gift Set

Operational Review

Hospitality

After a mixed performance in the first half of 2009, our hospitality business made a good recovery in the second half with sales up 6% on the second half of last year, leaving overall sales for the full year down 2% at £24.6m (2008: £25.0m).

Despite relatively weak demand from consumers eating out, our UK hospitality revenues were up slightly, as we worked hard to gain market share and maintained our position as the clear market leader in the UK. The British consumer has become more selective and price conscious when dining out and this has been reflected in substantial variations in activity in restaurants and pubs. There is firm evidence of promotional activity and it is pleasing to note that after a period of destocking there is now clear willingness by our end customers, both independents and chains, to refurbish premises, refresh menus and create new themes to attract consumers.

Export sales at £8.2m (2008: £8.7m) reflected a weaker performance from Europe in general and Spain and Eire in particular, where we experienced difficult trading conditions. This was offset to some extent by a resilient North American performance and good activity levels in smaller export markets, notably Russia and the Middle East. We have increased the quality and coverage of our export sales staff and anticipate some recovery in 2010.

Demand strengthened noticeably in the last quarter of 2009 and this has continued. We have focused on key distributor and end user relationships and this effort will be sustained in 2010.

The net contribution to Group was down £0.4m at £3.3m as margins were affected adversely by lower production efficiencies arising from reduced volumes. Our hospitality product ranges deliver superior performance and Churchill is determined to build upon its reputation for innovative new product development and the ability to invest in fresh concepts whilst enjoying high levels of recurring replacement revenues from regular hospitality customers. The bulk of our sales are generated from Churchill Supervit and Alchemy Fine China; the key features and benefits of these UK manufactured ranges being unrivalled product performance and service. We have introduced new stoneware and porcelain ranges to enable our sales team to meet end user demand for a different look or performance criteria. We are also delighted to be working with Riedel on the distribution of their fine glassware to the upper end of the hotel and restaurant sector.

Churchill Super Vitrified – Lotus

Alchemy – Ambience

Art de Cuisine – Menu Square

Right: Churchill Super Vitrified 'Bowl Collection'

"Our hospitality product ranges deliver superior performance and Churchill is determined to build upon its reputation for innovative new product development."

"We increased sales in both department stores and independent retailers by almost 50% in 2009 through the provision of an impressive array of branded and licensed new products."

Above: Cath Kidston Mugs

Alex Clark - Alphabet

Ella Doran - Sweetie Love

Sanderson - Sweet Bay

Retail

Sales to our retail customers were marginally higher at £17.1m (2008: £17.0m). This performance reflected good progress in our strategy to build sales in middle market accounts whilst managing the transition from volume channel business. We increased sales in both department stores and independent retailers by almost 50% in 2009 through the provision of an impressive array of branded and licensed new products. The Jamie Oliver, Cath Kidston, Disney, Alex Clark, Sanderson, Ella Doran and other licences are key to our success in both the middle market and high volume sectors. We continue to invest in the development of our business to optimise our performance over the long term. Sales to our promotional customers slowed in the second half after a strong first half performance.

The UK, North America and Australasia all performed well but export sales to Europe were disappointing, reflecting weak consumer demand.

The net contribution to Group was stable at £1.7m (2008: £1.7m) as margins were supported by growth in middle market business despite price pressure in volume channels. We continue to invest in support of profitable opportunities across the market and expect further progress in the distribution of our licensed product ranges to the independent sector although this will be offset by competitive pricing pressure in the volume sector.

Manufacturing, Sourcing and Logistics

With the prevailing economic climate it was important to continue to implement cost reduction and manufacturing initiatives but it was challenging to optimise production levels. For the majority of 2009, our UK factory was operating at well below optimum capacity and the manufacturing team were working under strict guidelines to ensure that working capital requirements and inventory levels were not exceeded. These objectives were successfully realised.

Our new £4m distribution centre became fully operational in June 2009, ensuring all our UK operations are now consolidated on our freehold site in Stoke-on-Trent, eliminating the requirement for inter-site transport and extra warehousing which had incurred costs in 2008.

We remain committed to maintaining and improving our UK technical ceramic expertise whilst driving down costs. The next stage of this plan is a significant investment in a new energy efficient 'once fire' kiln with robotic product handling devices. The installation of this equipment will be completed in the middle of 2010. For our sourcing operations, we continue to support our manufacturing partners (mainly in Asia) with direct support on ceramic quality, ethical standards, delivery and packaging matters from both from the UK and our Shanghai office.

People

I have commented before that Churchill is very fortunate to have a dedicated workforce and a strong skill base. I believe that there is an excellent team spirit and a tangible will to "get things done" at Churchill. We are fortunate to not only have the capacity to retain our existing skills and talent, but also the ability to attract well-qualified graduates and more experienced senior staff to the business and this team is key to our continuing success.

Rodney Kettel retires this year after eleven years as a non-executive Director and before that for several years as Churchill's appointed auditor. Rodney's contribution has been invaluable on many dimensions and we wish him well for the future.

"A dedicated workforce and a strong skill base"

Above: Churchill Super Vitrified X Squared
Above Right: Art de Cuisine Professional Bone China

Prospects

We have started the new year relatively well and have reason to expect an improvement in our overall performance in 2010, particularly given recent evidence of enhanced demand in our Hospitality business. Demand for our Hospitality products has been firm and we are confident that our strategy of targeted new product development will deliver sales growth.

In our Retail business, volume channel sales are well behind the corresponding period in 2009 but we expect our increased sales to independents and department stores will more than compensate with improved returns over the year as a whole.

Overall, Churchill is well positioned to respond to changes in the marketplace, however, the strength of our recovery will be influenced by continued economic improvement. We have maintained our investment in the business in both revenue and capital terms for the long term benefit of shareholders and have demonstrated the strength of the Churchill business through a difficult period. We are confident in our ability to deliver future growth.

Jonathan Sparey
Chairman
24 March 2010

Alchemy – Energy Buffet

Jamie Oliver – Keeping it Simple

Churchill Super Vitrified – Zen

"Churchill is well positioned"

Directors' Report

for the year ended 31 December 2009

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2009.

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 36.

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 4 and Business Review section of this report on page 15.

Dividends

The Directors have paid the following dividends in respect of the years ended 31 December 2009 and 31 December 2008:

	2009	2008
	£'000	£'000
Ordinary dividend:		
Final dividend 2008 9.2p (2007: 9.2p) per 10p ordinary share	**1,003**	1,007
Interim dividend 2009 4.8p (2008: 4.8p) per 10p ordinary share	**523**	524
	1,526	1,531
The following dividend was declared in respect of 2009 and paid on 12 March 2010:		
Ordinary dividend:		
Second interim dividend 2009 9.2p (2008: £nil)	**1,004**	–
The Directors now recommend payment of the following dividend:		
Ordinary dividend:		
Final dividend 2009 nil (2008: 9.2p) per 10p ordinary share	**–**	1,003

Dividends on treasury shares held by the Company are waived.

Directors

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

J N E Sparey *	R S Kettel *
A D Roper	I T Hicks
D J S Taylor	J W Morgan*
D M O'Connor	

* Non executive

The Directors retiring by rotation are D M O'Connor and I T Hicks who, being eligible, offer themselves for re-election. The unexpired terms of the service contracts of D M O'Connor and I T Hicks are 12 months.

The biographical details of the Directors are as follows:

Jonathan Sparey, non executive Chairman, aged 52, 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 61, has worked for the Company since 1973. He has responsibility for the development of Group strategy and for operational performance and development. He was appointed to his present role in 2007 following on from his role as Group Managing Director since 1998.

David Taylor, Finance Director and Company Secretary, Managing Director: Retail products, aged 50, has worked for the Group for 18 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 66, 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: Hospitality products, aged 53, has worked for Churchill for 19 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, Operations Director, aged 40, 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 52, 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 17% and 9% 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.

There is a significant amount of competitive pressure within our markets. In our retail markets customers are able to choose from a wide variety of alternative suppliers based both in the UK and overseas. There are relatively low costs of switching between certain markets, particularly in volume distribution channels. In hospitality markets there are higher barriers to entry given the nature and structure of the market which places a premium on service, quality and technical performance.

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. Adverse macro-economic conditions and general uncertainty have affected most of the world's developed economies. Growth rates have generally been negative and have been especially so in Southern European markets where the Group derives a proportion of its total revenues. This limitation of demand appears to have relaxed somewhat towards the end of 2009 in certain markets, but it is too early to assess whether this represents the start of a longer term recovery or a short term benefit. Our forward planning process assumes that there will be no major return to growth in 2010 and we continue to manage our business accordingly.

Directors' Report

(continued)

The cost of imported product has remained generally stable although there has been some rise due to higher freight rates. Our UK manufacturing operations remain subject to tight cost control to mitigate higher unit fixed costs on lower production levels. Labour costs have risen during the year, but are expected to remain stable during 2010. Energy costs are generally at lower levels than at the corresponding point last year.

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.

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.

Customer Service *(continued)*

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.

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.

In the UK we believe that we will continue to reinforce our market leadership based on our programme of introducing new products specifically targeted at meeting customer requirements. 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 marketplace and intense competitive pressure largely caused by overcapacity in the worldwide ceramics market. The Group's established strategy of developing sales to middle market distribution channels alongside sales to our volume channel customers will be extended both in the UK and overseas. We plan to invest further in sales and market development. 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.

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.

Directors' Report

(continued)

Currency exposure *(continued)*
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 levels of sales and sales growth are reviewed regularly through the year against previous year and target levels.

Sales 2009: £41.7m (2008: £42.0m).

Sales growth 2009: -1% (2008: -11%).

Overall sales levels have decreased marginally as a result of less favourable general economic conditions. Despite uncertain economic conditions, our UK revenue grew by 3% over the year, reflecting our strong market position. Sales were significantly reduced in Europe, particularly in Southern Europe.

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 2009: £7.1m (2008: £8.5m).

Customer service and inventory *(continued)*

One of our key targets for 2009 was to reduce inventory holding level both to optimise cash and also to preserve operational flexibility given an uncertain economic outlook. We have achieved our targets and inventory levels are at acceptable levels.

Operating profit and profit before taxation

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

Operating profit 2009: £2.3m (2008: £2.8m).

Operating profit before tax fell principally due to lower efficiencies within our manufacturing operations as we reduced output levels to control inventory. Savings within our cost base offset some of the impact of these reduced efficiencies. Operating margins were maintained at acceptable levels (5.5% (2008: 6.7%)).

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

Profit before taxation 2009: £2.1m (2008: £3.4m).

The fall in profit before tax in 2009 arose as a result of two main reasons: due to reduced operating profits as discussed above and, more significantly, due to lower interest receipts. Cash interest receipts fell £0.3m as average interest rates declined sharply. Notional pension interest costs associated with our final salary pension fund rose considerably as discount and inflation rate assumptions moved adversely. The credit of £0.2m enjoyed in 2008 reversed to a charge of £0.3m in 2009. Interest on pension scheme liabilities is a non cash item.

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. 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 2009: £2.3m (2008: £2.8m).

Operating cash generation 2009: £3.3m (2008: £2.5m).

Percentage of operating cash generation to operating profit 151% (2008: 89%).

Three year average percentage of operating cash generation for the last 3 years to operating profit 147% (2008: 165%).

Operating cash generation was above operating profit largely due to reduced inventory holding levels. This decrease reflects a targeted plan to reduce inventory holding levels.

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 to 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.

Directors' Report

(continued)

Employees *(continued)*

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 with over 90% of our weekly paid employees working to at least one vocational qualification. 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 opportunity. 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.

Since 2002 we have run a graduate recruitment programme in the business; currently we have over 50 graduates who have been or who are currently on the programme, representing 25% of our staff employees. From these graduates the core of our future management team will develop.

We remain committed to Total Quality Management using Business 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 retraining.

Health and safety

The health and safety of our employees is central to our operations and we invest significant effort and resource to target continuous improvement. Health and safety is a Board responsibility and receives constant management focus; the Board has access to appropriately trained and skilled assistance to meet its obligations. Our approach to health and safety is embedded in our day-to-day working practices. Our health and safety policy is documented and published and we aim to identify and to reduce health and safety risks associated with our operations to the lowest practical levels.

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 is in relation to the energy it consumes and the waste products produced as part of its operations. Whilst the Company manufactures a product which may be reused 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 have obtained accreditation under ISO 14001, the international standard for environmental efficient operations.

We run ongoing programmes to minimise energy usage and waste. We have 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.

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 the Group is accredited by 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 has a sourcing and support operation in China.

Insurance of Directors

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

Financing

The Group currently has in place short term variable rate financing arrangements to provide finance for working capital requirements should they be required.

Financial instruments

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

The risk management policy adopted is to regularly review forward foreign currency cash flows, identifying the currency effect of completed sale and purchase transactions, transactions which have been contracted for but not completed and an assessment of expected likely forward cash flows. The net currency exposure arising from this review is then managed using forward option contracts. Net currency exposures are generally covered between 3 and 6 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.

Directors' Report

(continued)

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 16 March 2010 exceeded 3% of the Company's issued share capital:

Shareholder	Number of ordinary shares	Percentage
New Landfinance Limited	1,730,000	15.8%
S Baker	1,000,000	9.1%
J A Roper	1,000,000	9.1%
E S & S J Roper	897,265	8.2%
M J & G Roper	681,880	6.2%
Rensburg Sheppards Investment Management	632,935	5.8%
Henderson Global Investors	440,000	4.0%

Share repurchase

During the year the Company repurchased nil (2008: 58,400) 10p ordinary shares at a total cost of £nil (2008: £160,000) in order to improve overall shareholder return. 10,000 (2008: 13,000) shares were reissued in respect of employee share option schemes for a total consideration of £21,000 (2008: £22,000). The maximum number of shares held by the Company during the year was 45,400 10p ordinary shares. The Company retains a power, subject to the fulfilment of certain conditions and as approved at the 2009 Annual General Meeting, for the further purchase of its own shares.

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 2009 was 38 days (2008: 40 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 (2008: £nil) and £4,000 (2008: £5,000) respectively. In addition to the above, the Group regularly donates quantities of product to charitable causes. The estimated value of these donations in 2009 was £9,000 (2008: £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.

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

The Directors are responsible for preparing the Annual 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 elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

In the case of each of the persons who are Directors at the date of this report, as 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.

Independent Auditors

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

By order of the Board

D J S Taylor
Company Secretary
24 March 2010

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Report of the Remuneration Committee

for the year ended 31 December 2009

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 J W Morgan, who acts as Chairman, J N E Sparey and R S Kettel, 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 £**
2009							
Executive							
A D Roper	199,667	20,000	993	–	**220,660**	–	**220,660**
D J S Taylor	164,000	20,000	15,318	–	**199,318**	11,480	**210,798**
D M O'Connor	169,000	20,000	14,121	–	**203,121**	11,830	**214,951**
I T Hicks	118,000	10,000	8,258	–	**136,258**	8,260	**144,518**
Non executive							
J N E Sparey	58,000	–	–	–	**58,000**	–	**58,000**
R S Kettel	36,000	–	–	–	**36,000**	–	**36,000**
J W Morgan	36,000	–	–	–	**36,000**		**36,000**
	780,667	70,000	38,690	–	**889,357**	31,570	**920,927**
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**

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. No Director waived emoluments in respect of the years ended 31 December 2009 and 2008.

Pension costs represent contributions as defined by the London Stock Exchange guidance and are contributions made by the Group to defined contribution schemes. For additional information in respect of Directors' pensions refer to the 'Pensions' section 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 2009**	Number of options 31 December 2008	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			
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 employee's responsibilities, ability and contribution. The grant of options is made at market value at the date of grant at no cost to the employee.

The above options are only exercisable subject to the satisfaction of performance criteria in relation to sustained improvement in the financial performance of the Group. In the case of the above options the Remuneration Committee considers that a sustained improvement in the financial performance of the Group represents an increase in the adjusted basic earnings per ordinary share of the Group of at least 6% above the increase in the Retail Price Index over the 3 year period from the beginning of the financial year in which the option was granted.

Phantom Share Scheme

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

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

	Date of grant	**Number of phantom shares 31 December 2009**	Number of phantom shares 31 December 2008	Base value pence	Cap value pence	Date 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**	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**	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**	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 basic 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 275p (2008: 187.5p). The range of prices for the year to 31 December 2009 was 155p to 299.75p (2008: 307.5p to 180p) per ordinary share.

Gains made by Directors on share options

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

No gains were made by Directors on the exercise of share options during the year or during 2008.

Report of the Remuneration Committee

(continued)

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	–	106,908	–
D J S Taylor	–	27,689	–
D M O'Connor	–	27,198	–
I T Hicks	–	16,457	–
	–	178,252	–

The disclosure above is in accordance with London Stock Exchange guidance.

	Increase in benefit over the year (incl. inflation) £	**Transfer value at 31 December 2009 £**	Transfer value at 31 December 2008 £	Change in transfer value less Directors' contributions £
A D Roper	–	**1,776,247**	1,516,024	260,223
D J S Taylor	–	**394,136**	276,678	117,458
D M O'Connor	–	**302,042**	210,443	91,599
I T Hicks	–	**116,154**	69,906	46,248
	–	**2,588,579**	2,073,051	515,528

The disclosure above is in accordance with the guidance in the Companies Act 2006.

The accrued benefit above is the amount of pension that would be paid each year on retirement based on service to 31 December 2009 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.

Pensions *(continued)*

The transfer value above 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 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. Contributions made by the Group were as follows:

	2009	2008
	£	£
D J S Taylor	**11,480**	11,293
D M O'Connor	**11,830**	11,293
R N Grundy (until resignation)	**–**	3,640
I T Hicks	**8,260**	8,167
	31,570	34,393

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. All executive Directors have contracts of service which can be terminated with a notice period of 12 months from the Company or 6 months from the Director. A D Roper's service contract was signed on 10 September 2009, D J S Taylor's on 6 October 2009, D M O'Connor's on 21 March 2000 and I T Hicks' on 14 September 2009.

Non executive Directors are appointed on fixed term contracts of 2 years duration. Fixed term contracts for non executive Directors were signed on the following dates: J N E Sparey and J W Morgan 19 May 2009. R S Kettel has indicated that he will retire after the 2010 Annual General Meeting.

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

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Report of the Remuneration Committee

(continued)

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 2009 in the 10p ordinary shares of the Company were as follows:

	2009	2008
A D Roper	**864,930**	864,930
D J S Taylor	**13,500**	13,500
R S Kettel	**15,000**	25,000
D M O'Connor	**5,599**	5,599
J N E Sparey	**43,100**	38,100
I T Hicks	**2,500**	2,500
J W Morgan	**28,000**	28,000
	972,629	977,629

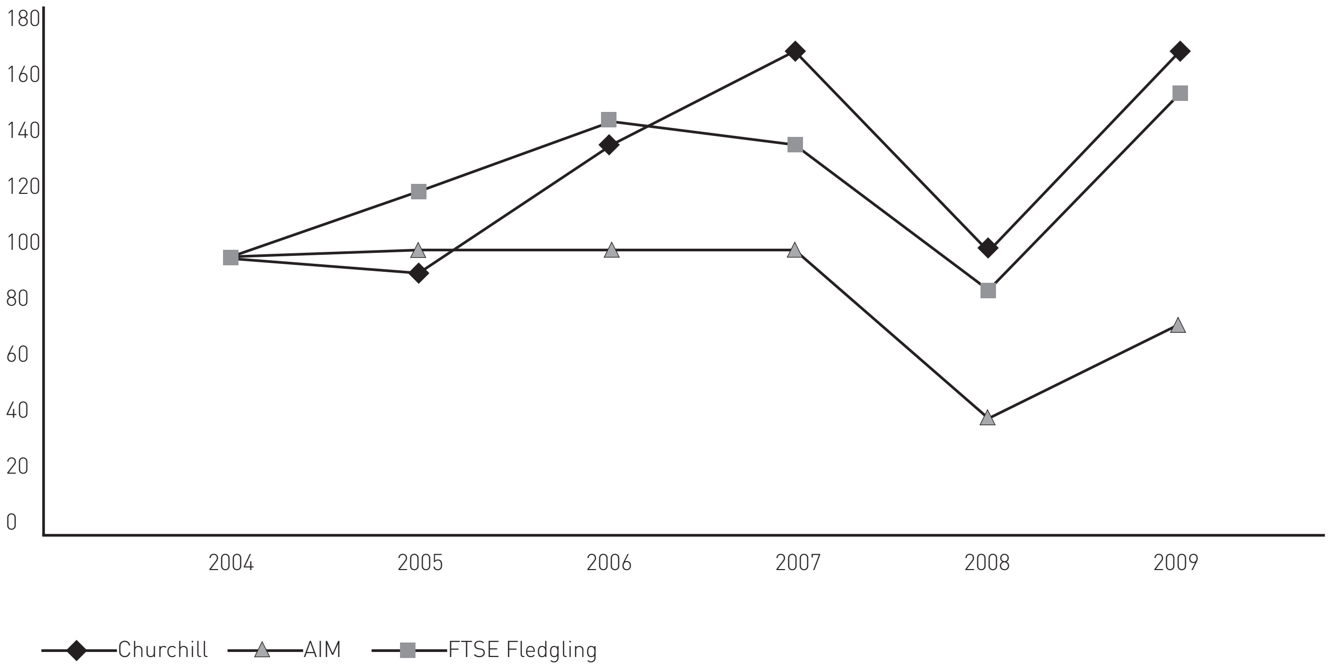
A D Roper's non-beneficial shareholdings included above at 31 December 2009 were 202,500 (2008: 202,500) 10p ordinary shares, as trustee of various trusts established for the benefit of his children.

A D Roper's interest in the 10p ordinary shares of the Company at 31 December 2009 represented 7.9% (2008: 7.9%) of the Company's issued share capital.

There has been no change in the interests set out above between 31 December 2009 and 24 March 2010.

Performance graph

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



(Source: Brewin Dolphin)

Over the 5 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. Total returns in the year have been supported by the general rise in Company valuations and our overall 5 year return has remained positive at an average compound rate of over 11%. Over the five year period total shareholder return from the Company has been 69%, whilst that achieved by the AIM index as a whole was -31% and the FTSE Fledgling 48%. In the year to 31 December 2009 the overall return from the Company was 56%, the AIM index achieved a 68% return and the FTSE Fledgling index 79%.

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 Group.

On behalf of the Board

J W Morgan
Chairman of the Remuneration Committee
24 March 2010

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 and seeks to comply with the principles of the Code as far as practically possible.

The Board of Directors

The Board is currently composed of 4 executive and 3 non executive Directors and meets at least 11 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 3 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	12	11
D J S Taylor	12	12
R S Kettel	12	12
D M O'Connor	12	11
J N E Sparey	12	12
I T Hicks	12	12
J W Morgan	12	12

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 2 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 J W Morgan.

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 misstatement or loss.

The Board has established a system for ongoing review of risk assessment and management procedures to ensure that the controls on which it places reliance are operating satisfactorily and 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 misstatement or loss. The principal features of the Group's system of internal financial control are: the maintenance of a control environment in which the need for the highest standards of behaviour and integrity are communicated to employees; the use of a detailed reporting system covering performance against comprehensive financial and other key operating indicators. The Board and the Audit Committee have reviewed the operation and effectiveness of the system of internal financial control during the year. 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
24 March 2010

Independent Auditors' Report to the Members of Churchill China plc

We have audited the Group and parent Company financial statements (the ''financial statements'') of Churchill China plc for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Reconciliation of Operating Profit to Net Cash Inflow from Continuing Activities and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 23, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended;
- the parent Company financial statements give a true and fair view of the state of the parent Company's affairs as at 31 December 2009;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Mike Robinson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
24 March 2010

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Consolidated Income Statement

for the year ended 31 December 2009

	Notes	Total 2009 £'000	Before exceptional item 2008 £'000	Exceptional item 2008 £'000	Total 2008 £'000
Revenue	4	**41,705**	41,969	–	41,969
Operating profit	5	**2,288**	2,804	–	2,804
Share of results of associate company	15	**(18)**	(71)	–	(71)
Finance income	8	**119**	658	–	658
Finance costs	8	**(320)**	(29)	–	(29)
Profit before income tax		**2,069**	3,362	–	3,362
Income tax expense	10	**(513)**	(938)	(919)	(1,857)
Profit for the year		**1,556**	2,424	(919)	1,505
Attributable to equity holders of the Company		**1,556**	2,424	(919)	1,505
Earnings per ordinary share	11	**14.3p**			13.8p
Diluted earnings per share	11	**14.2p**			13.7p

All of the above figures relate to continuing operations.

The notes on pages 43 to 76 are an integral part of these consolidated financial statements.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the parent Company profit and loss account. The loss of the parent Company for the year was £23,000 (2008: profit of £24,000).

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

	2009 £'000	2008 £'000
Net of tax:		
Actuarial loss on defined benefit obligations (note 23)	**(4,136)**	(1,022)
Currency translation differences	**(14)**	43
Other	**2**	–
Net loss recognised directly in equity	**(4,148)**	(979)
Profit for the year	**1,556**	1,505
Total comprehensive (expense)/income for the year	**(2,592)**	526
Attributable to:		
Equity holders of the Company	**(2,592)**	526

Amounts in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 10.

The Company has no recognised gains and losses other than those included in its profit and loss account and therefore no separate Statement of Total Recognised Gains and Losses has been presented.

Consolidated Balance Sheet

as at 31 December 2009

	Notes	2009 £'000	2008 £'000
Assets			
Non current assets			
Property, plant and equipment	13	**14,299**	13,889
Intangible assets	14	**498**	397
Investment in associate	15	**725**	743
Deferred income tax assets	22	**2,163**	586
		17,685	15,615
Current assets			
Inventories	18	**7,142**	8,477
Trade and other receivables	19	**9,031**	8,631
Cash and cash equivalents		**6,882**	7,738
		23,055	24,846
Assets held for sale	20	**662**	–
		23,717	24,846
Total assets		**41,402**	40,461
Liabilities			
Current liabilities			
Trade and other payables	21	**(6,907)**	(7,466)
Current income tax liabilities		**(574)**	(689)
		(7,481)	(8,155)
Non current liabilities			
Deferred income tax liabilities	22	**(1,676)**	(1,640)
Retirement benefit obligations	23	**(7,709)**	(2,055)
Total liabilities		**(16,866)**	(11,850)
Net assets		**24,536**	28,611
Shareholders' equity			
Issued share capital	24	**1,095**	1,095
Share premium account	24	**2,332**	2,332
Treasury shares	25	**(117)**	(138)
Other reserves	26	**1,234**	1,236
Retained earnings	27	**19,992**	24,086
Total equity		**24,536**	28,611

The notes on pages 43 to 76 are an integral part of these consolidated financial statements.

The financial statements on pages 36 to 76 were approved by the Board of Directors on 24 March 2010 and were signed on its behalf by:

A D Roper
Director

D J S Taylor
Director

Company number 2709505

Company Balance Sheet

as at 31 December 2009

	Notes	2009 £'000	2008 £'000
Fixed assets			
Investment in associate	15	**355**	355
Investments in subsidiaries	16	**2,195**	2,195
		2,550	2,550
Current assets			
Debtors: amounts falling due after more than one year	19	**8,500**	10,181
Debtors: amounts falling due within one year	19	**290**	137
Cash at bank and in hand		**517**	495
		9,307	10,813
Creditors: amounts falling due within one year	21	**(26)**	(26)
Net current assets		**9,281**	10,787
Total assets less current liabilities		**11,831**	13,337
Net assets		**11,831**	13,337
Capital and reserves			
Called up share capital	24	**1,095**	1,095
Share premium account	24	**2,332**	2,332
Treasury shares	25	**(117)**	(138)
Other reserves	26	**69**	47
Profit and loss account	27	**8,452**	10,001
Total shareholders' funds		**11,831**	13,337

The notes on pages 43 to 76 are an integral part of these consolidated financial statements.

The financial statements on pages 36 to 76 were approved by the Board of Directors on 24 March 2010 and were signed on its behalf by:

A D Roper
Director

D J S Taylor
Director

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Consolidated Statement of Changes in Equity

for the year ended 31 December 2009

	Retained earnings £'000	Share capital £'000	Share premium £'000	Treasury shares £'000	Other reserves £'000	Total £'000
Balance at 1 January 2008	25,124	1,095	2,332	–	1,180	29,731
Comprehensive Income:						
Profit for the year	1,505	–	–	–	–	1,505
Other comprehensive income:						
Depreciation transfer – gross	12	–	–	–	(12)	–
Depreciation transfer – tax	(2)	–	–	–	2	–
Actuarial losses – net of tax	(1,022)	–	–	–	–	(1,022)
Currency translation	–	–	–	–	43	43
Total comprehensive income	493	–	–	–	33	526
Transactions with owners						
Dividends relating to 2007 and 2008	(1,531)	–	–	–	–	(1,531)
Share based payment	–	–	–	–	23	23
Treasury shares	–	–	–	(138)	–	(138)
Total transactions with owners	(1,531)	–	–	(138)	23	(1,646)
Balance at 1 January 2009	24,086	1,095	2,332	(138)	1,236	28,611
Comprehensive Income:						
Profit for the year	1,556	–	–	–		1,556
Other comprehensive income:						
Depreciation transfer – gross	12	–	–	–	(12)	–
Depreciation transfer – tax	–	–	–	–	2	2
Actuarial losses – net of tax	(4,136)	–	–	–		(4,136)
Currency translation	–	–	–	–	(14)	(14)
Total comprehensive income	(2,568)	–	–	–	(24)	(2,592)
Transactions with owners						
Dividends relating to 2008 and 2009	(1,526)	–	–	–	–	(1,526)
Share based payment	–	–	–	–	22	22
Treasury shares	–	–	–	21	–	21
Total transactions with owners	(1,526)	–	–	21	22	(1,483)
Balance at 31 December 2009	**19,992**	**1,095**	**2,332**	**(117)**	**1,234**	**24,536**

Consolidated Cash Flow Statement

for the year ended 31 December 2009

	2009 £'000	2008 £'000
Cash flow from operating activities		
Cash generated from operations (see note page 42)	**3,439**	2,502
Interest received*	**119**	444
Interest paid	**–**	(29)
Income tax paid	**(559)**	(483)
Net cash generated from operating activities	**2,999**	2,434
Investing activities		
Purchases of property, plant and equipment	**(2,196)**	(4,199)
Proceeds on disposal of property, plant and equipment	**42**	107
Purchases of intangible assets	**(194)**	(382)
Net cash used in investing activities	**(2,348)**	(4,474)
Financing activities		
Issue of ordinary shares	**21**	22
Purchase of treasury shares	**–**	(160)
Dividends paid	**(1,526)**	(1,531)
Net cash used in financing activities	**(1,505)**	(1,669)
Net decrease in cash and cash equivalents	**(854)**	(3,709)
Cash and cash equivalents at the beginning of the year	**7,738**	11,440
Exchange (losses)/gains on cash and cash equivalents	**(2)**	7
Cash and cash equivalents at the end of the year	**6,882**	7,738

* Conventionally interest received is included under the heading 'Investing activities'; however, the Directors believe that as the Group holds cash in support of operating activities it should be disclosed as part of cash generated from operating activities.

Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2009 £'000	2008 £'000
Continuing operating activities		
Operating profit	**2,288**	2,804
Adjustments for:		
Depreciation and amortisation	**1,396**	1,070
Profit on disposal of property, plant and equipment	**(14)**	(35)
Charge for share based payments	**22**	23
Difference between pension service cost and contributions (see note 23)	**(410)**	(240)
Changes in working capital:		
Inventory	**1,335**	(1,817)
Trade and other receivables	**(415)**	1,021
Trade and other payables	**(763)**	(324)
Net cash inflow from operations	**3,439**	2,502

Notes to the Financial Statements

for the year ended 31 December 2009

1 Summary of significant accounting policies

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 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) New and amended standards adopted by the Group

The Group has adopted the following new and amended IFRSs as of 1 January 2009:

IFRS 7 'Financial instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk.

IAS 1 (revised). 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

IFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. The Group and Company has adopted IFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group or Company's financial statements.

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group previously recognised all borrowing costs as an expense immediately. This change in accounting policy was due to the adoption of IAS 23, 'Borrowing costs' (2007). The amendment does not have a material impact on the Group or Company's financial statements.

IFRS 8 'Operating segments' (effective 1 January 2009). The standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The implementation of the standard has not altered the reported segments presented.

(b) 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 2010 or later periods, but the Group has not early adopted them:

IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. The Group and Company will apply IFRIC 17 from 1 January 2010. It is not expected to have a material impact on the Group or Company's financial statements.

Notes to the Financial Statements

for the year ended 31 December 2009

1 Summary of significant accounting policies *(continued)*

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

IAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010. It is not expected to have a material impact on the Group or Company's financial statements.

IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

IAS 38 (amendment), 'Intangible Assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the Group and Company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment will not result in a material impact on the Group or Company's financial statements.

IFRS 5 (amendment), 'Non current assets held for sale and discontinued operations'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal Groups) classified as held for sale or discontinued operations. It is not expected to have a material impact on the Group or Company's financial statements.

IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. The Group and Company will apply IAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group or Company's financial statements.

IFRS 2 (amendments), 'Group cash-settled share-based payment transactions' (effective from 1 January 2010). In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of Group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the Group or Company's financial statements.

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.

1 Summary of significant accounting policies *(continued)*

(a) Subsidiaries (continued)

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.

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

Operating segments are reported in a way consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments has been identified as Andrew Roper, Chief Executive Officer. 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 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.

Notes to the Financial Statements

for the year ended 31 December 2009

1 Summary of significant accounting policies *(continued)*

Leases

Management review new leases and classify them as operating or finance leases in accordance with the balance of risk and reward between lessee and the lessor. 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 as a result of changes in legislation. The Directors apply judgement in assessing the particular items, which by virtue of their size and nature are separately disclosed in the income statement and notes to the financial statements as "Exceptional items". The Directors believe that the separate disclosure of these items is relevant in understanding the Group's financial performance.

Dividends

Dividends to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are paid, following approval by the Company's shareholders.

Interest received/paid

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

Retirement benefit costs

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

The defined benefit scheme is valued every 3 years by a professionally qualified independent Actuary. In intervening years, the Actuary reviews the continuing appropriateness of the valuation. Scheme liabilities are measured using the projected unit method and the amount recognised in the balance sheet is the present value of these liabilities at the balance sheet date. The discount rate used to calculate the present value of liabilities is the interest rate attaching to high 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 net credit or cost representing the expected return on the market value of the assets of the scheme during the year less a charge representing the expected increase in the present value of the liabilities in the scheme arising from the liabilities of the scheme being one year closer to payment is included within finance income or cost. 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.

Actuarial gains and losses are recognised in the statement of comprehensive income and expense in the year, together with differences arising from changes in actuarial assumptions.

1 Summary of significant accounting policies *(continued)*

Retirement benefit costs *(continued)*

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

Share based payments

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

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

Foreign currencies

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

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

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

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

Derivative financial instruments

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

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

Taxation

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

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

Notes to the Financial Statements

for the year ended 31 December 2009

1 Summary of significant accounting policies *(continued)*

Taxation *(continued)*

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

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

Deferred tax assets and liabilities may be set off against each other provided there is a legal right to do so and it is managements' intention to do so.

Property, plant and equipment

Property, plant and equipment is shown at cost, net of 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	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 amortisation. Amortisation is calculated so as to write off the cost, less any provision for impairment, of intangible assets, less their estimated residual values over the expected useful economic lives of the assets concerned. The principal annual rate used for this purpose is:

	%
Computer software	33 on cost

The Company has no goodwill.

Impairment of non financial assets

At each reporting date the Directors assess whether there is any indication that an asset may be impaired. If any such indicator exists the 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.

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.

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 12 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.

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. Trade receivables are as defined under IAS 39.

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 3 months or less, and bank overdrafts. Cash and cash equivalents are as defined under IAS 39.

Non current assets held for sale

Non current assets are classified as being held for sale when their value is expected to be recovered through disposal rather than continuing usage within the business and when the future sale is considered to be highly probable. Management must be committed to sale which should be expected to be completed to qualify for recognition as a completed sale within 1 year from the date of classification. Non current assets are measured at the lower of carrying value and fair value less disposal costs, and are no longer depreciated.

Provisions

Provisions are recognised when (i) the 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 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies applied in the preparation of the Company financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Notes to the Financial Statements

for the year ended 31 December 2009

1 Summary of significant accounting policies *(continued)*

Investments

Fixed asset investments, comprising investments in subsidiary and associated companies, are stated at cost less any provisions for impairment. Where an event has occurred 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 2009, 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 £9,000 (2008: £46,000) 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 £9,000 (2008: £8,000) 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 £157,000 (2008: £195,000) 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 2009, 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 £5,000 (2008: £9,000) higher/lower. Other components of equity would have been unchanged.

2 Financial risk management *(continued)*

(b) Credit risk

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

Cash and cash equivalents are as follows:

	Credit rating	**2009 £'000**	2008 £'000
Lloyds Banking Group plc	AA-	**6,427**	740
National Westminster Bank plc	AA-	**25**	6,613
Other	Min A	**430**	385
		6,882	7,738

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

The Group manages its 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 and other receivables and trade and other payables are assumed to approximate their fair values.

Notes to the Financial Statements

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3 Critical accounting estimates and judgements

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

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

(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 £342,000 (2008: £306,000).

(b) Pension benefits:

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

The 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 23.

(c) Recognition of deferred tax assets

The Group reassesses each year whether it is appropriate to recognise the deferred tax assets in the financial statements based upon the likelihood that the assets can be recovered. The assessment is based on the expected reversal of temporary timing differences.

4 Segmental analysis

Management has determined the operating segments are based on the reports reviewed by the Chief Operating Decision Maker and the Strategic Steering Committee of the Board that are used to make strategic decisions. The Board considers the business primarily based on the market and product groups, but also from a geographic perspective. Geographically, management considers the performance in relation to the UK, rest of Europe, North America and Rest of the World.

The reportable operating product segments derive their revenue primarily from the sale of ceramic products to the Retail and Hospitality sectors.

The Board assesses the performance of the operating segments based on the measure of operating profit, as analysed in the management accounts. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs and goodwill impairments when the impairment is the result of an isolated, non-recurring event. The measure also excludes the effects of equity-settled share-based payments and unrealised gains/losses on financial instruments. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. Since the Strategic Steering Committee reviews operating profit, the results of discontinued operations are not included in the measure of operating profit.

4 Segmental analysis *(continued)*

(a) Primary reporting format – business segments

The business is managed in 2 main business segments – hospitality and retail.

		31 December 2009		
	Hospitality	**Retail**	**Unallocated**	**Group**
	£'000	**£'000**	**£'000**	**£'000**
Revenue from external customers	24,554	17,151	–	41,705
Contribution to Group overheads excluding depreciation	4,183	1,911	(2,410)	3,684
Depreciation	(894)	(185)	(317)	(1,396)
Operating profit	3,289	1,726	(2,727)	2,288
Share of results of associated Company				(18)
Finance income				119
Finance cost				(320)
Profit before income tax				2,069

		31 December 2008		
	Hospitality	Retail	Unallocated	Group
	£'000	£'000	£'000	£'000
Revenue from external customers	24,952	17,017	–	41,969
Contribution to Group overheads excluding depreciation	4,318	1,948	(2,392)	3,874
Depreciation	(650)	(239)	(181)	(1,070)
Operating profit	3,668	1,709	(2,573)	2,804
Share of results of associated Company				(71)
Finance income				658
Finance cost				(29)
Profit before income tax				3,362

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 (2008: £nil). Any inter-segment revenues are carried out on an arms length basis.

Revenue from external parties is measured in a manner consistent with the consolidated income statement.

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

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

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4 Segmental analysis *(continued)*

(a) Primary reporting format – business segments *(continued)*

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

Segment assets and liabilities at 31 December 2009 and capital expenditure for the year ended on that date are as follows:

	Hospitality £'000	**Retail £'000**	**Unallocated £'000**	**Group £'000**
Assets excluding inventories	14,642	7,234	11,659	33,535
Inventories	4,481	2,661	–	7,142
Investment in associates	–	–	725	725
Total assets	19,123	9,895	12,384	41,402
Total liabilities	3,225	1,455	12,186	16,866
Capital expenditure	794	1,531	273	2,598

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 excluding inventories	14,321	6,893	10,027	31,241
Inventories	5,069	3,408	–	8,477
Investment in associates	–	–	743	743
Total assets	19,390	10,301	10,770	40,461
Total liabilities	3,283	2,479	6,087	11,849
Capital expenditure	3,636	190	755	4,581

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 2 business segments operate in 4 main geographical segments, even though they are managed on a worldwide basis.

	2009 £'000	2008 £'000
Geographical segment – Revenue		
United Kingdom	**28,453**	27,538
Rest of Europe	**6,973**	8,236
North America	**3,628**	3,165
Other	**2,651**	3,030
	41,705	41,969

The total assets of the business are allocated as follows:
United Kingdom £40,489,000 (2008: £39,781,000), Rest of Europe £31,000 (2008: £64,000), North America £852,000 (2008: £564,000), Other £30,000 (2008: £52,000).

Capital expenditure was made as follows:
United Kingdom £2,596,000 (2008: £4,580,000), Other £2,000 (2008: £1,000).

5 Expenses by nature

	Total 2009 £'000	Total 2008 £'000
Changes in inventories of finished goods and work in progress	**1,358**	(1,810)
Raw materials used	**2,113**	2,325
Purchase of goods for resale	**9,766**	11,402
Employee benefit expense (note 7)	**14,258**	15,817
Other external charges	**10,691**	11,048
Depreciation and amortisation charges	**1,396**	1,070
Profit on disposal of property, plant and equipment	**(14)**	(35)
Foreign exchange gains	**(151)**	(652)
Total cost of sales distribution costs and administrative expenses	**39,417**	39,165

Exceptional items

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

6 Average number of people employed

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

	2009 Number	2008 Number
By activity		
Production	**278**	372
Sales and administration	**232**	227
	510	599

The Company had no employees (2008: none).

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7 Employee benefit expense

	2009 £'000	2008 £'000
Staff costs (for the employees shown in note 6)		
Wages and salaries	**12,605**	13,972
Social security costs	**1,080**	1,200
Defined contribution pension cost (see note 23)	**404**	459
Other pension costs (see note 23)	**147**	163
Share options granted to directors and employees (see note 24)	**22**	23
	14,258	15,817

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 (2008: nil).

8 Finance income and costs

	2009 £'000	2008 £'000
Interest income on cash and cash equivalents	**119**	444
Interest on pension scheme (note 23)	**–**	214
Finance income	**119**	658
Interest on pension scheme (note 23)	**(320)**	–
Other interest	**–**	(29)
Finance costs	**(320)**	(29)
Net finance (cost)/income	**(201)**	629

9 Auditors' remuneration

Amounts paid to the Group's auditors were as follows:	2009 £'000	2008 £'000
Audit services – audit of subsidiaries	**63**	69
Audit services – audit of parent and consolidated financial statements (Company £1,500, 2008: £1,500)	**7**	7
Non-audit services – taxation advice	**26**	34
	96	110

10 Income tax expense

	2009 £'000	2008 £'000
Group		
Current tax – current year	**589**	789
– adjustment in respect of prior periods	**(145)**	(109)
	444	680
Deferred tax (note 21)		
Origination and reversal of temporary differences	**69**	258
Income tax expense before exceptional item	**513**	938
Origination of temporary differences – exceptional	**–**	919
Income tax expense	**513**	1,857

In 2008, 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 are now being phased out in the period to 2011. The Group provided £919,000 in 2008 for the deferred tax liability arising from this change and the charge was treated as exceptional. There was no cash outflow in relation to this change in that 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:

	2009 £'000	2008 £'000
Profit before income tax	**2,069**	3,362
Tax calculated at domestic tax rates applicable to profits in the respective countries	**579**	959
Expenses not deductible for tax purposes	**17**	20
Adjustment in respect of prior periods	**(145)**	(109)
Deferred tax on withdrawal of IBAs (see above)	**–**	919
Other	**62**	68
Tax charge	**513**	1,857

The weighted average applicable tax rate was 28% (2008: 28.5%).

During the year a credit of £1,608,000 (2008: £397,000) in relation to deferred tax arising from actuarial gains and losses on the Group's defined benefit pension obligation and a credit of £2,000 (2008: £nil) in relation to the reversal of deferred taxation on the revaluation of land and buildings were adjusted directly within equity.

Notes to the Financial Statements

for the year ended 31 December 2009

11 Earnings per ordinary share

The basic earnings per ordinary share is based on the profit after income tax and on 10,904,065 (2008: 10,923,038) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The adjusted basic earnings per ordinary share is based on the profit after income tax and adjusted to take into account exceptional items. The Directors believe that adjusted earnings per share more closely reflects the underlying performance of the Group.

	2009 Pence per share	2008 Pence per share
Basic earnings per share (based on earnings £1,556,000 (2008: £1,505,000))	**14.3**	13.8
Adjustment – exceptional item:		
Deferred taxation – Industrial Buildings Allowances (£nil (2008: £919,000)) (note 10)	**–**	8.4
Adjusted basic earnings per share	**14.3**	22.2

Diluted earnings per ordinary share is based on the profit after income tax and on 10,934,139 (2008: 10,965,990) ordinary shares, being the weighted average number of ordinary shares in issue during the year of 10,904,065 (2008: 10,923,038) increased by 30,074 (2008: 42,952) 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. Adjusted diluted adjusted earnings per ordinary share is based on the profit after income tax and adjusted to take into account exceptional items.

	2009 Pence per share	2008 Pence per share
Diluted earnings per share (based on earnings £1,556,000 (2008: £1,505,000))	**14.2**	13.7
Adjustment – exceptional item:		
Deferred taxation – Industrial Buildings Allowances (£nil (2008: £919,000)) (note 10)	**–**	8.4
Adjusted diluted earnings per share	**14.2**	22.1

12 Dividends

The dividends paid in the year were as follows:

Ordinary	**2009 £'000**	2008 £'000
Final 2008 9.2p per 10p ordinary share (Final 2007: 9.2p)	**1,003**	1,007
Interim 2009 4.8p per 10p ordinary share paid (Interim 2008: 4.8p)	**523**	524
	1,526	1,531

A dividend of 9.2p per share in respect of the year to 31 December 2009 amounting to £1,004,000 was declared on 17 February 2010 and paid on 12 March 2010. The Directors do not recommend the payment of any further dividend in respect of 2009 and a motion confirming this will be proposed at the Annual General Meeting.

13 Property, plant and equipment

The Company has no property, plant and equipment (2008: none). Details of those relating to the Group are as follows:

	Freehold land and buildings £'000	Plant £'000	Motor vehicles £'000	Fixtures and fittings £'000	Total £'000
Group					
At 1 January 2008					
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	(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**
Year ended 31 December 2009					
Opening net book amount	9,787	3,058	584	460	13,889
Additions	707	1,325	70	286	2,388
Disposals	–	–	(29)	–	(29)
Transfer to current assets	(662)	–	–	–	(662)
Depreciation charge	(172)	(761)	(145)	(209)	(1,287)
Closing net book amount	**9,660**	**3,622**	**480**	**537**	**14,299**
At 31 December 2009					
Cost	11,104	15,864	958	2,231	30,157
Accumulated depreciation	(1,444)	(12,242)	(478)	(1,694)	(15,858)
Net book amount	**9,660**	**3,622**	**480**	**537**	**14,299**

Notes to the Financial Statements

for the year ended 31 December 2009

14 Intangible assets

The Company has no intangible fixed assets (2008: none). Details of these relating to the Group are as follows:

	Computer software
Group	**£'000**
At 1 January 2008	
Cost	196
Accumulated amortisation	(162)
Net book amount	**34**
Year ended 31 December 2008	
Opening net book amount	34
Additions	382
Amortisation charge	(19)
Closing net book amount	**397**
At 31 December 2008	
Cost	578
Accumulated amortisation	(181)
Net book amount	**397**
Year ended 31 December 2009	
Opening net book amount	397
Additions	210
Amortisation charge	(109)
Closing net book amount	**498**
At 31 December 2009	
Cost	788
Accumulated amortisation	(290)
Net book amount	**498**

15 Investment in associate

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Cost				
At 1 January	**1,467**	1,487	**355**	355
Share of loss	**(591)**	(20)	**–**	–
At 31 December	**876**	1,467	**355**	355
Impairment				
At 1 January	**724**	673	**–**	–
Impairment of investment in associate	**(573)**	51	**–**	–
At 31 December	**151**	724	**–**	–
Net book value				
Closing net book amount	**725**	743	**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.

	2009 £'000	2008 £'000
Share of associate's assets	**1,260**	1,932
Share of associate's liabilities	**(336)**	(417)
Share of associate's net assets	**924**	1,515

The total revenue of Furlong Mills Limited for its year ended 31 December 2009 was £5,343,000 (2008: £5,928,000) and loss before tax was £1,717,000 including an exceptional loss of £1,650,000 (2008: loss £124,000). During the year the Group purchased raw materials to a value of £1,437,000 (2008: £1,672,000) from Furlong Mills Limited.

The Group has historically carried its investment in Furlong Mills Limited at a net amount after an impairment reflecting the Board's view of the recoverable amount of the investment. In the year to 31 December 2009 Furlong Mills Limited has performed an impairment review of its property, plant and equipment and has reduced the carrying value of these assets in its company balance sheet. The Group has consequently released an equivalent amount reflecting its share of this impairment.

The difference between the carrying value of the Group's interest in associate and the share of associate's net assets reflects the remaining impairment charged in the Group's accounts and adjustments in relation to accounting policies.

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 2009

16 Investment in subsidiaries

	2009	2008
Company	**£'000**	£'000
Cost or valuation		
At 1 January and 31 December 2009	**2,627**	2,627
Impairment		
At 1 January 2008	**432**	424
Impairment during the year	**–**	8
At 31 December 2009	**432**	432
Net book value		
At 31 December 2009	**2,195**	2,195

The impairment in 2008 reduced 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	England and Wales	Ordinary	100%	Manufacture and sale of ceramic and related products
Churchill Ceramics (UK) Limited	England and Wales	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
Fair value/Cost		
At 1 January and 31 December 2009	–	43
Impairment		
At 1 January and 31 December 2009	–	43
Fair value/Net book value		
At 1 January and 31 December 2009	–	–

The above represents 35.9% (2008: 35.9%) of the issued ordinary share capital of Shraff Management Limited, a company registered in England and Wales. 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 inventory (2008: none). Details of inventory relating to the Group are as follows:

	2009 £'000	2008 £'000
Raw materials	**56**	33
Work in progress	**396**	530
Finished goods	**6,690**	7,914
	7,142	8,477

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

The cost of inventories recognised as an expense and included in the income statements amounted to £23,872,000 (2008: £24,622,000).

Notes to the Financial Statements

for the year ended 31 December 2009

19 Trade and other receivables

	Group		Company	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Trade receivables	**8,717**	8,559	**–**	–
Less: provision for impairment of trade receivables	**(147)**	(108)	**–**	–
Trade receivables – net	**8,570**	8,451	**–**	–
Other	**152**	5	**150**	–
Prepayments	**309**	175	**–**	–
Receivables from related parties (note 29)	**–**	–	**8,640**	10,318
	9,031	8,631	**8,790**	10,318
Less non current portion: loans to related parties	**–**	–	**8,500**	10,181
Current portion	**9,031**	8,631	**290**	137

All non current receivables are due within 5 years from the balance sheet date.

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

Trade receivables that are less than 3 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 2009, trade receivables of £7,758,000 (2008: £7,570,000) were fully performing.

As of 31 December 2009, trade receivables of £599,000 (2008: £867,000) were past due but not impaired. The ageing of these receivables is as follows:

	2009	2008
	£'000	£'000
Up to 3 months	**548**	795
3 to 6 months	**46**	53
Over 6 months	**5**	19
	599	867

19 Trade and other receivables *(continued)*

As of 31 December 2009 trade receivables with a gross value of £360,000 (2008: £122,000) were impaired and provided for. The amount of provision for 31 December 2009 was £147,000 (2008: £108,000). 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:

	2009 **£'000**	2008 £'000
Up to 3 months	**308**	107
3 to 6 months	**33**	–
Over 6 months	**19**	15
	360	122

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

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

	2009 **£'000**	2008 £'000
At 1 January	**108**	9
Provision for receivables impairment	**147**	108
Receivables written off during the year as uncollectible	**(108)**	(9)
At 31 December	**147**	108

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:

	2009 **£'000**	2008 £'000
Pounds	**6,965**	6,258
Euros	**726**	763
US dollar	**1,340**	1,610
	9,031	8,631

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Notes to the Financial Statements

for the year ended 31 December 2009

19 Trade and other receivables *(continued)*

During the year the Group had gains of £151,000 (2008: £652,000) 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 £444,000 (2008: £1,298,000) and the sale of US dollars of £484,000 (2008: £696,000). These contracts are held at their fair value with a gain of £7,000 (2008: loss of £149,000) recognised in relation to the contracts outstanding at the year end.

Company

As of 31 December 2009, Company receivables of £8,790,000 (2008: £10,318,000) were fully performing.

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

	2009 £'000	2008 £'000
Pounds	**8,758**	10,289
US dollar	**32**	29
	8,790	10,318

20 Assets held for sale

	2009 £'000	2008 £'000
Land and buildings	**662**	–

The above amount represents the carrying value of certain land and buildings in Stoke on Trent, held as an asset for sale. The assets are held within unallocated assets in the segmental analysis (see note 4). The assets will be sold upon agreement of an appropriate contractual offer.

21 Trade and other payables

	Group		**Company**	
	2009 £'000	2008 £'000	**2009 £'000**	2008 £'000
Trade payables	**1,985**	3,432	**–**	–
Amounts due to related parties	**24**	45	**13**	13
Social security and other taxes	**753**	578	**12**	10
Accrued expenses	**4,145**	3,411	**1**	3
	6,907	7,466	**26**	26

All the above liabilities mature within 12 months from 31 December 2009.

Note 19 shows the losses/gains on forward option contracts that have been recognised in the income statement. As at 31 December 2009 the Group held forward exchange contracts for the purchase of US dollars of £nil (2008: £nil). These contracts are held at their fair value with a gain of £nil (2008: £nil) recognised in relation to the contracts outstanding at the year end.

22 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:

Group	**2009 £'000**	2008 £'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**2,062**	576
– Deferred tax asset to be recovered within 12 months	**101**	10
	2,163	586
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	**(1,652)**	(1,637)
– Deferred tax liabilities to be recovered within 12 months	**(24)**	(3)
	(1,676)	(1,640)
Deferred tax assets/(liabilities) (net)	**487**	(1,054)

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

	2009 £'000	2008 £'000
At 1 January	**(1,054)**	(274)
Income statement charge (note 10)	**(69)**	(1,177)
Tax credited directly to equity (note 27)	**1,610**	397
At 31 December	**487**	(1,054)

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 2008	239	353	592
Charged to the income statement	1,050	(2)	1,048
At 31 December 2008	1,289	351	1,640
Charged to the income statement	38	–	38
Credited directly to equity	–	(2)	(2)
At 31 December 2009	**1,327**	**349**	**1,676**

Notes to the Financial Statements

for the year ended 31 December 2009

22 Deferred income tax *(continued)*

Deferred tax assets	**Retirement benefit obligation £'000**	**Other £'000**	**Total £'000**
At 1 January 2008	(307)	(11)	(318)
Charged to the income statement	128	1	129
Credited directly to equity	(397)	–	(397)
At 31 December 2008	(576)	(10)	(586)
Charged to the income statement	25	6	31
Credited directly to equity	(1,608)	–	(1,608)
At 31 December 2009	**(2,159)**	**(4)**	**(2,163)**

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

	2009 £'000	2008 £'000
Fair value reserves in shareholders' equity:		
Tax on actuarial loss on retirement benefits scheme	**(1,608)**	(397)
Tax on difference between depreciation on buildings on an actual and historical cost basis	**(2)**	–
	(1,610)	(397)

Deferred income tax of £2,000 (2008: £2,000) was transferred from other reserves (note 26) to retained earnings (note 27). This represents deferred tax on the difference between the actual depreciation on buildings and the equivalent depreciation based on the historical cost of buildings.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has not recognised deferred income tax assets of £1,511,000 (2008: £1,511,000) in respect of capital losses amounting to £5,395,000 (2008: £5,395,000) that can be carried forward against future capital gains.

23 Retirement benefit obligations

	2009 £'000	2008 £'000
Balance sheet obligations		
Pension benefits	**7,709**	2,055
Income statement charge/(credit)		
Pension benefits	**551**	622
Finance cost/(income)	**320**	(214)

The Group operates 3 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.

23 Retirement benefit obligations *(continued)*

The assets of the schemes are held separately from those of the Group. The total pension cost for the Group was £551,000 (2008: £622,000. Of this cost £nil (2008: £nil), related to the Churchill Group Retirement Benefit Scheme, £158,000 (2008: £180,000) was in respect of the Churchill China 1999 Pension Scheme and £246,000 (2008: £274,000) 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 £57,000 (2008: £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 £410,000 (2008: £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 £495,000 per annum in respect of the amortisation of past service deficits.

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

	2009	2008
	£'000	£'000
Present value of funded obligations	**34,550**	25,275
Fair value of plan assets	**(26,841)**	(23,220)
Liability in balance sheet	**7,709**	2,055

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

	2009	2008
	£'000	£'000
At 1 January	**25,275**	29,209
Interest cost	**1,668**	1,694
Actuarial losses/(gains)	**8,433**	(5,044)
Benefits paid	**(826)**	(584)
At 31 December	**34,550**	25,275

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

	2009	2008
	£'000	£'000
At 1 January	**23,220**	28,119
Expected return on plan assets	**1,348**	1,908
Actuarial gains/(losses)	**2,689**	(6,463)
Employer contributions	**410**	240
Benefits paid	**(826)**	(584)
At 31 December	**26,841**	23,220

Notes to the Financial Statements

for the year ended 31 December 2009

23 Retirement benefit obligations *(continued)*

Plan assets are comprised as follows:

	2009 £'000		2008 £'000	
Equity investments	**17,783**	**66%**	12,545	54%
Debt investments	**4,986**	**19%**	4,756	20%
Other	**4,072**	**15%**	5,919	26%
	26,841		23,220	

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:

	2009 £'000	2008 £'000
Interest cost	**1,668**	1,694
Expected return on plan assets	**(1,348)**	(1,908)
Net cost/(credit) recognised in finance cost/(income)	**320**	(214)

The actual return on plan assets was a gain of £4,037,000 (2008: loss £4,555,000).

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

	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Difference between the expected and actual return on scheme assets:				
Amount	**2,689**	(6,463)	(200)	839
Percentage of scheme assets	**10%**	28%	1%	3%
Experience gains and losses on scheme liabilities:				
Amount	**(414)**	372	(192)	310
Percentage of present value of scheme liabilities	**1%**	1%	1%	1%
Total amount recognised in consolidated statement of comprehensive income (SOCIE):				
Amount	**(5,744)**	1,419	2,379	1,110
Percentage of present value of scheme liabilities	**17%**	6%	8%	4%

The position prior to 2006 has not been disclosed as no IFRS comparatives exist for this period.

23 Retirement benefit obligations *(continued)*

The principal actuarial assumptions used were as follows:

Pension benefits

	2009 % per annum	2008 % per annum
Discount rate	**5.7%**	6.6%
Inflation rate	**3.5%**	2.9%
Expected return on plan assets	**6.8%**	6.0%
Rate of increase of pensions in payment	**3.5%**	2.9%
Rate of increase of deferred pensions	**3.5%**	2.9%

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:

	2009 Number	2008 Number
Male	**20.9**	20.7
Female	**24.1**	24.0

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

	2009 Number	2008 Number
Male	**22.7**	22.6
Female	**26.1**	26.0

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 in the discount rate to 5.95% would be to reduce scheme liabilities by £1,721,000 (5.0%).

The effect of a 0.25% decrease in the discount rate to 5.45% would be to increase scheme liabilities by £1,840,000 (5.3%).

The effect of a 0.25% increase in inflation to 3.75% would increase scheme liabilities by £1,358,000 (3.9%).

The effect of a 0.25% decrease in inflation to 3.25% would decrease scheme liabilities by £1,271,000 (3.7%).

The effect of a 1 year increase to life expectancy would increase scheme liabilities by £893,000 (2.6%). The effect of a 1 year reduction in life expectancy would be to reduce scheme liabilities by £928,000 (2.7%).

Notes to the Financial Statements

for the year ended 31 December 2009

24 Issued share capital and premium

Group and Company	Number of shares 000	Ordinary shares £'000	Share premium £'000
At 1 January 2008	10,948	1,095	2,332
Employee share option schemes	–	–	–
At 31 December 2008	10,948	1,095	2,332
Employee share option schemes	–	–	–
At 31 December 2009	**10,948**	**1,095**	**2,332**

The total authorised number of ordinary shares is 14,300,000 (2008: 14,300,000) with a par value of 10p (2008: 10p) per share. All issued shares are fully paid.

Share option schemes

The Executive share option scheme was introduced in October 1994 and 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 3 years from the date of grant and expire 10 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 3 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 (20,000 lapsed, 10,000 exercised)	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

24 Issued share capital and premium *(continued)*

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

Number of shares	2009	2008	Exercise price	Date from which exercisable	Expiry date
The Executive share option scheme					
	2,000	2,000	151p	December 2003	December 2010
	37,000	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	40,000	171p	April 2005	April 2012
	43,000	43,000	208p	April 2007	April 2014
	156,000	166,000			

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 2009 is set out below.

	2009 Number '000	**2009 Weighted average exercise price**	2008 Number '000	2008 Weighted average exercise price
Outstanding at 1 January	**166,000**	**184.3p**	189,000	184.6p
Forfeited/lapsed	**–**	**–**	(10,000)	208.0p
Exercised	**(10,000)**	**208.0p**	(13,000)	171.0p
Outstanding at 31 December	**156,000**	**182.8p**	166,000	184.3p
Exercisable at 31 December	**156,000**	**182.8p**	166,000	184.3p

There were no share options granted during the year (2008: £nil).

	2009 Weighted average exercise price	**2009 Number '000**	**2009 Weighted average remaining life (expected)**	**2009 Weighted average remaining life (contractual)**	2008 Weighted average exercise price	2008 Number '000	2008 Weighted average remaining life (expected)	2008 Weighted average remaining life (contractual)
100p –149p	**118.5p**	**12,500**	**0.0**	**0.3**	118.5p	12,500	0.0	1.3
150p –199p	**163.6p**	**63,500**	**0.0**	**1.9**	163.6p	63,500	0.0	2.9
200p –250p	**208.0p**	**80,000**	**0.0**	**4.3**	208.0p	90,000	0.3	5.3

The weighted average share price for options exercised in the period was 208.0p (2008: 171.0p). The total charge during the year for employee share based payment plans was £22,000 (2008: £23,000), all of which related to equity-settled share based payment transactions.

Notes to the Financial Statements

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25 Treasury shares

Group and Company	£'000
As at 1 January 2009	138
Purchase of own shares	–
Re-issue of shares	(21)
As at 31 December 2009	**117**

During the year the Group repurchased nil (2008: 58,400) 10p ordinary shares and re-issued 10,000 (2008: 13,000) of these under employee share option schemes. The Group currently holds 35,400 shares in Treasury.

26 Other reserves

Group	Land and buildings revaluation £'000	Currency translation £'000	Share based payment £'000	Other reserves £'000	Total £'000
Balance at 1 January 2008	910	(7)	24	253	1,180
Depreciation transfer – gross	(12)	–	–	–	(12)
Depreciation transfer – tax	2	–	–	–	2
Share based payment charge	–	–	23	–	23
Currency translation	–	43	–	–	43
Balance at 31 December 2008	900	36	47	253	1,236
Depreciation transfer – gross	(12)	–	–	–	(12)
Depreciation transfer – tax	2	–	–	–	2
Share based payment charge	–	–	22	–	22
Currency translation	–	(14)	–	–	(14)
Balance at 31 December 2009	**890**	**22**	**69**	**253**	**1,234**

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 £69,000 (2008: £47,000) represent provision for share based payment as shown in the above table.

27 Retained earnings

	Group £'000	Company £'000
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
At 1 January 2009	24,086	10,001
Profit/(loss) for the year	1,556	(23)
Dividends paid in 2009	(1,526)	(1,526)
Depreciation transfer on land and buildings net of tax	12	–
Actuarial losses net of tax	(4,136)	–
At 31 December 2009	**19,992**	**8,452**

28 Commitments

Capital commitments

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

	Group		Company	
	2009 £'000	2008 £'000	**2009 £'000**	2008 £'000
Property, plant and equipment	**696**	1,632	**–**	–
Intangible assets: Computer software	**33**	220	**–**	–
	729	1,852	**–**	–

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	
	2009 £'000	2008 £'000	**2009 £'000**	2008 £'000
Payments under operating leases charged against income during the year	**31**	50	**–**	–
Future aggregate minimum commitments under non cancellable operating leases:				
No later than 1 year	**4**	17	**–**	–
Later than one year and no later than 5 years	**3**	11	**–**	–

CHURCHiLL

Notes to the Financial Statements

for the year ended 31 December 2009

29 Related party transactions

Details of related party transactions for the Group are shown in the Directors' Report, Report of the Remuneration Committee 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:

	2009	2008
	£'000	£'000
Associates		
Dividends received from Furlong Mills Limited	**–**	–
Subsidiaries		
Management charge to Churchill China, Inc	**6**	7
Interest received from Churchill China, Inc	**–**	1
Interest received from Churchill China (UK) Limited	**5**	18
Loans repaid – Churchill China (UK) Limited	**1,686**	1,684
Loans outstanding as at the year end (mainly Churchill China (UK) Limited	**8,640**	10,318

30 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, with the exception of financial assets identified for sale, in both 2009 and 2008, as disclosed in note 17.

CHURCHILL

Five Year Financial Record

	2005 UK GAAP £'000	2006 IFRS £'000	2007 IFRS £'000	2008 IFRS £'000	**2009 IFRS £'000**
Turnover	44,835	45,930	46,930	41,969	**41,705**
Operating profit before exceptional items	2,696	2,795	3,230	2,804	**2,288**
Share of results of associate net of impairment	(21)	(7)	120	(71)	**(18)**
Finance income/(cost)	(114)	294	694	629	**(201)**
Profit on ordinary activities before profit on disposal of fixed asset and exceptional items	2,561	3,082	4,044	3,362	**2,069**
Exceptional items	–	784	–	–	**–**
Profit on disposal of property	269	1,876	798	–	**–**
Profit before taxation	2,830	5,742	4,842	3,362	**2,069**
Income tax expense	(152)	(1,631)	(1,147)	(938)	**(513)**
Income tax expense – exceptional	–	–	–	(919)	**–**
Profit after taxation	2,678	4,111	3,695	1,505	**1,556**
Dividends	(1,194)	(1,217)	(1,375)	(1,531)	**(1,526)**
Net assets employed	22,446	25,653	29,731	28,612	**24,536**
Ratios					
Operating margin before exceptional items	6.0%	6.1%	6.9%	6.7%	**5.5%**
Basic earnings per share (p)	24.7	37.7	33.8	13.8	**14.3**
Adjusted basic earnings per share (p)	17.6	20.5	26.5	22.2	**14.3**

The adjusted basic 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 ending 31 December 2006 have been adjusted to reflect the introduction of International Financial Reporting Standards.

CHURCHiLL

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Churchill China plc will be held at Marlborough Pottery, High Street, Sandyford, Tunstall, Stoke-on-Trent on Wednesday 19 May 2010 at 11.30 am 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 2009 be received.

2. That no further dividend be payable in respect of the year ended 31 December 2009.

3. That David O'Connor be re-elected as a Director.

4. That Iain Hicks 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 2010.

6. That the Directors' Remuneration Report for the year ended 31 December 2009 be approved.

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

7. That:

(a) the Directors be and they are hereby empowered under Section 570 of the Companies Act 2006 ("the Act") to allot equity securities (as defined in Section 560 of the Act) for cash under the authority conferred by a resolution dated 21 May 2008, as if Section 561 of the Act did not apply to such allotment, provided that this power shall be limited to:-

(i) the allotment of equity securities in connection with an offer of equity securities to:

(1) ordinary shareholders in proportion (as nearly as may be) to their existing holdings; and

(2) holders of other equity securities, if this is required by the rights of those securities, or, if the Directors consider it necessary as permitted by the rights of those securities, but subject to such exclusions and other arrangements as the Directors may consider necessary or desirable to deal with fractional entitlements, record dates, treasury shares or any legal, practical or regulatory problems under the laws of any territory (including the requirements of any regulatory body or stock exchange) or any other matter; and

(ii) the allotment of equity securities (otherwise than as mentioned in sub-paragraph (a) of this resolution) up to an aggregate nominal amount of £109,579;

(b) this power shall cease to have effect when the authority given by the resolution dated 21 May 2008 is revoked or expires but during this period the Company may make an offer or agreement which would or might require equity securities to be allotted after this authority expires and the Directors may allot equity securities in pursuance of that offer or agreement notwithstanding that the authority has expired;

(c) this power applies in relation to a sale of shares which is an allotment of equity securities by virtue of Section 560(2)(b) of the Act as if the words "under the authority conferred by a resolution dated 21 May 2008" were omitted from the introductory wording to this resolution.

8. That the Company be generally and unconditionally authorised for the purposes of Sections 693 and 701 of the Act to make market purchases (within the meaning of Section 693(4) 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 1,095,797;

   (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, cannot be more than an amount equal to the higher of:

      (i) 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

      (ii) the price stipulated by Article 5(1) of Commission Regulation (EC) No 2273/2003 (the Buy-back and Stabilisation Regulation);

   (d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting or 18 August 2011, whichever is the earlier; and

   (e) 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.

9. That the amended Articles of Association produced to the meeting and initialled by the Chairman of the meeting 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.

10. 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

Dated 21 April 2010

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

Registered Number 2709505

The Directors of the Company consider that all the proposals to be considered at the Annual General Meeting are in the best interests of the Company and its members as a whole and are most likely to promote the success of the Company for the benefit of its members as a whole. The Directors unanimously recommend that you vote in favour of all the proposed resolutions.

Notes

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A form of proxy which may be used to make such appointment and give proxy instructions accompanies this notice. Instructions for use are shown on the form. If you do not have a form of proxy and believe that you should have one, or if you require additional forms, please contact our registrars, Equiniti, on 0871 384 2287. Calls to this number from a BT landline cost 8p per minute; other providers' costs may vary. If calling from overseas, please call +44 (0)121 415 7047. Lines are open 8.30am – 5pm, Monday – Friday. To appoint more than one proxy, you may photocopy the proxy form .

2. To be valid, any form of proxy or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the offices of the Company's registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, no later than 11.30 am on 17 May 2010. If you return more than one proxy appointment, that received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully.

3. The return of a completed form of proxy will not prevent a shareholder attending the AGM and voting in person if he/she wishes to do so.

4. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

5. Any person to whom this notice is sent who is a person nominated under Section 146 of the Act to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

6. The statement of the rights of shareholders in relation to the appointment of proxies in notes 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

7. To be entitled to attend and vote at the AGM (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company at 11.30 am on 17 May 2010 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting). Changes to the Register after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting. There are no other procedures or requirements for entitled shareholders to comply with in order to attend and vote at the AGM. Voting at the meeting will be conducted by way of a show of hands, unless a poll is correctly called for.

8. As at 21 April 2010 (being the last practicable date prior to publication of this Notice), the Company's issued share capital consists of 10,957,976 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 21 April 2010 are 10,957,976.

9. Under Section 527 of the Act, members meeting the threshold requirements set out in that Section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Act. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under Section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the Act to publish on a website.

10. Pursuant to Section 319A of the Act, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered or if to do so would involve the disclosure of confidential information.

11. Except as provided above, members who wish to communicate with the Company in relation to the AGM should do so using the following means: (1) by writing to the Company Secretary at the Registered Office address; or (2) by writing to the Registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA. No other methods of communication will be accepted. In particular, you may not use any electronic address provided either in this Notice or in any related documents for any purposes other than expressly stated.

12. A copy of this Notice, and other information required by Section 311A of the Act, can be found at www.churchillchina.plc.uk .

13. Copies of the Directors' Service Contracts, Non-executive Directors' letter of appointment and the proposed and current Articles of Association will be available for inspection at the Company's Registered Office address on weekdays (Saturdays and public holidays excepted) during business hours from the date of this Notice until the conclusion of the AGM.

Explanatory Notes on the Resolutions

The notes on the following pages give an explanation of certain of the proposed resolutions.

1. Resolution 2: payment of the final dividend for the year ended 31 December 2009 of 9.2p per share was accelerated from its normal payment date in May to March 2010 to preserve net value to shareholders. The total dividend paid in respect of the year ended 31 December 2009 was 14.0p per share (2008: 14.0p).

2. Resolutions 3 and 4: in accordance with the Company's Articles of Association at every AGM a certain number of Directors must retire by rotation. Messrs. O'Connor and Hicks are retiring by rotation and resolutions 3 and 4 seek approval for their re-election as Executive Directors. Biographical details for the Directors are set out on page 15 of the Report and Accounts.

   Each of the Directors has had a formal performance evaluation and the Board believes that each of them continues to be effective and demonstrates commitment to the role.

3. Under Section 570 of the Act, when new shares are allotted or treasury shares are sold for cash, they must first be offered to existing shareholders pro rata to their holdings. This special resolution empowers the Directors to:

   (a) allot shares of the Company in connection with a rights issue, scrip dividend or other similar issue; and

   (b) otherwise allot shares of the Company, or sell treasury shares for cash, up to an aggregate nominal value of £ 109,579 (representing in accordance with institutional investor guidelines, approximately 10% of the share capital in issue as at 21 April 2010) (being the last practicable date prior to the publication of this Notice) as if the pre-emption rights of Section 570 did not apply.

   Except in relation to the Company's employee share schemes, the Directors have no immediate plans to make use of this power. In line with best practice, the Company confirms that it has not issued more than 7.5% of its issued share capital on a non-pro rata basis over the last 3 years.

   This power shall cease to have effect when the authority given by the resolution dated 21 May 2008 is revoked or expires.

4. Resolution 8 renews the Directors' current authority to make limited market purchases of the Company's ordinary shares. The power is limited to a maximum aggregate number of 1,095,797 ordinary shares (representing approximately 10 per cent of the issued share capital excluding treasury shares as at 21 April 2010 (being the last practicable date prior to publication of this Notice) and details the minimum and maximum prices that can be paid, exclusive of expenses. Any purchases of ordinary shares would be made by means of market purchase through the London Stock Exchange.

   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.

   Current legislation allows companies to hold shares acquired by way of market purchase in treasury, rather than having to cancel them. The Directors may use the authority to purchase shares and hold them in treasury (and subsequently sell or transfer them out of treasury as permitted in accordance with legislation) rather than cancel them, subject to institutional guidelines applicable at the time. Shares will only be purchased if to do so would result in an increase in earnings per share and is in the best interests of shareholders generally. The Board has previously indicated its intention to continue to return surplus cash to shareholders via on-market purchase of its own shares where it is not required to finance the organic expansion of the business, acquisitions and dividend payments.

   The authority conferred by this resolution will expire 18 months from the date of this resolution or, if earlier, at the conclusion of the next AGM.

5. Resolution 9 is a resolution to adopt new Articles of Association, ("the New Articles"). The principal changes to be introduced are summarised in the Appendix to this notice. Other changes, which are of a minor, technical or clarifying nature have not been noted in the Appendix. The Articles are available for inspection as stated in note 13 above.

6. Resolution 10 is required under the Shareholders' Rights Regulations in order to preserve the ability of the Company to call general meetings on 14 days' notice, with shareholders' approval. The approval will be effective until the 2011 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 Regulations before it can call a general meeting on 14 days' notice.

Appendix

EXPLANATORY NOTES OF DIFFERENCES BETWEEN THE CURRENT ARTICLES AND THE NEW ARTICLES

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.

1. **Articles which duplicate statutory provisions**
   Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 **(CA 2006)** have, in the main, be removed in the New Articles. This is in line with the approach advocated by the Government – to the effect that statutory provisions should not be duplicated in a company's constitution.

2. **Voting by proxies on a show of hands**
   The Companies (Shareholders' Rights) Regulations 2009 (**Shareholder Regulations**) have amended the CA 2006 so that it now provides that each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The New Articles have been amended to reflect these changes.

3. **Directors' Fees**
   The limit on the total aggregate amount of fees which the Company may pay to directors has been increased from £100,000 per annum to £200,000 per annum. These fees are distinct from any salary or remuneration paid to executive directors and mainly capture fees payable to non-executive directors. The responsibilities and time commitments of the non-executive directors have increased significantly since the current limit was last set and fees paid to non-executive Directors are increasing in recognition of their greater role and responsibility.

4. **Vacation of office by directors**
   The Current Articles specify the circumstances in which a director must vacate office. The New Articles update these provisions to include that a director must vacate office where (i) he holds office for a fixed term and that term expires and (ii) he ceases to be an employee of a group company (and is not employed by any other group company) unless the board resolves otherwise.

5. **Chairman's casting vote**
   The New Articles remove the provision giving the chairman a casting vote in the event of an equality of votes as this is no longer permitted under the CA 2006.

6. **Adjournments**
   Under the CA 2006 as amended by the Shareholder Regulations, general meetings adjourned for lack of quorum must be held at least 10 clear days after the original meeting. The Current Articles have been changed to reflect this requirement.

7. **Arrangements at general meetings**
   The New Articles contain provisions which permit the chairman to make necessary arrangements if the meeting place specified for a general meeting is not adequate to accommodate all persons entitled and wishing to attend. The New Articles also include provisions for the board to make appropriate arrangements to ensure the security of a general meeting.

8. **Borrowing powers**
   A number of presentational and descriptive amendments have been made to the borrowing power provisions in the New Articles.

9. **Communications provisions**
   The New Articles contain updated communications provisions so as to make them more consistent with the "company communication provisions" in the CA 2006.

10. **CREST**
    The New Articles contain a number of new provisions designed to maximise the Company's ability to use electronic systems for dealing in shares through CREST.

11. **General**
    Generally, the opportunity has been taken to include clearer language in the New Articles and, in some areas, to conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Enterprise and Regulatory Reform.

Shareholder Notes

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