CHURCHILL

China plc

Annual Report

2011

Performance

Innovation

Uncompromising Service

Passion

Responsiveness

Above: Alchemy Plate Towers

Financial Highlights

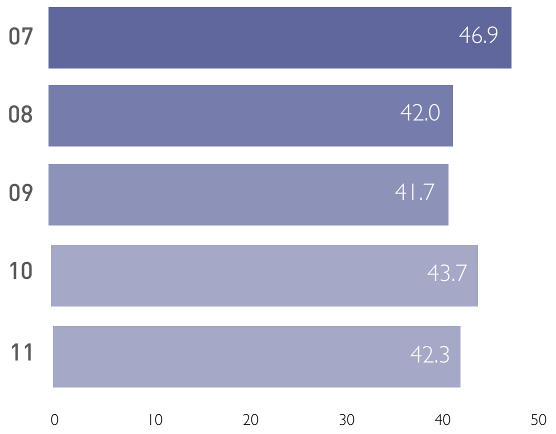
	2011 £000	2010 £000
Results		
Revenue – continuing operations	42,296	43,746
Operating profit – continuing operations	2,713	2,287
Share of results of associate company	(41)	162
Net finance income/(cost)	22	(135)
Profit before income tax	2,694	2,314
Dividends paid	1,530	1,529
Key Ratios		
Operating margin	6.4%	5.2%
Basic earnings per share	19.2p	15.8p
Diluted earnings per share	19.2p	15.8p
Dividends paid per share	14.0p	14.0p


Above: Alchemy Plate Towers

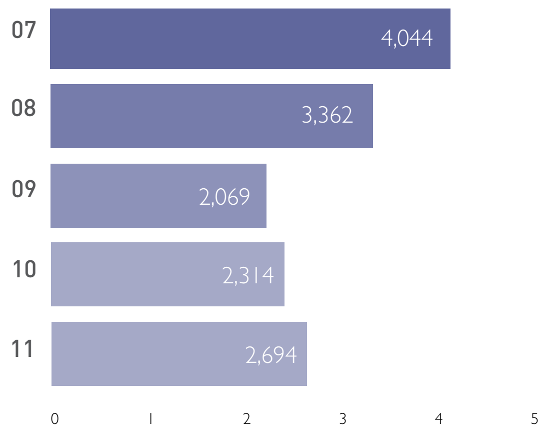

Above: Alchemy Ambience


Above: Lucaris Glassware

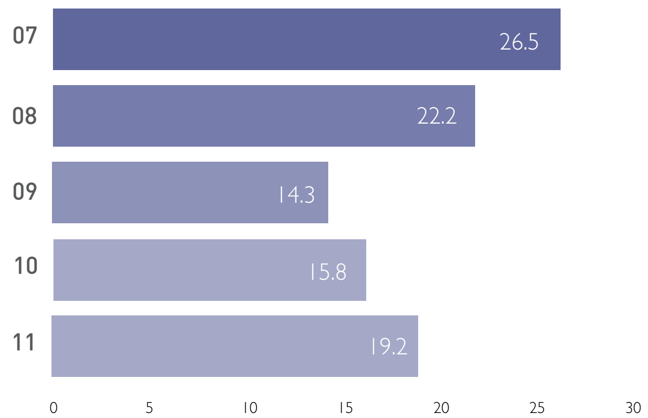
Five Year Performance



Revenue (£m)



Profit before exceptional items (£000)



Adjusted basic earnings per share (p)

Above: Art de Cuisine, Illuminate

CHURCHILL CHINA plc

DIRECTORS, SECRETARY AND ADVISERS

EXECUTIVE DIRECTORS
A D Roper
D J S Taylor
D M O'Connor

NON-EXECUTIVE DIRECTORS
J N E Sparey *•
J W Morgan *•
A J McWalter *•

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• Member of remuneration committee
Registered no: 2709505

"Churchill China delivered a robust trading performance in 2011"

INTRODUCTION

I am very pleased to report that Churchill China delivered a robust trading performance in 2011, continuing to make good progress despite the difficult international economic environment. Sales in our Hospitality business are now ahead of their previous peak and profitability improved significantly. Our Retail business enhanced the quality of its customer mix and earnings on substantially lower sales as we turned away from low margin business.

Group revenues were slightly lower at £42.3m (2010: £43.7m) reflecting this combination of continued growth in Hospitality sales and the planned reduction in Retail sales. Group profit before tax for the year rose by 16.4% to £2.7m (2010: £2.3m). Churchill has again ended the year with a strong balance sheet including cash balances of £6.9m (2010: £4.4m). The new financial year has started positively and is in line with our expectations.

Above: Little Rhymes

Above Top: James Sadler
Above Bottom: Alchemy Buffet Cubes

Above: Alchemy Moonstone and Buffet Cubes



Above Lifestyles: Churchill Super Vitrified Contempo

Group operating profit increased by 18.6% to £2.7m (2010: £2.3m) with margins rising from 5.2% to 6.4%. We are pleased with this strong improvement in profitability, particularly given that it was achieved against a background of increased investment in our Hospitality business, the substantial repositioning of our Retail business and higher depreciation costs. Earnings before interest, tax, depreciation and amortisation rose 22% from £3.8m to £4.7m.

Earnings per share improved by 22% from 15.8p to 19.2p reflecting both the improvement in pre tax profit and a lower than standard tax charge. The tax charge for the year fell to an effective rate of 22% (2010: 25%) following changes in forward deferred tax rates.

We generated strong cash flows during the year with inflows from operations rising to £5.9m (2010: £1.1m) and year end net cash balances increasing to £6.9m (2010: £4.4m). The high level of cash generation was principally due to a substantial reduction in receivables which largely reflected a structural change in the profile of our Retail business. Part of this reduction in working capital was reinvested in higher inventory to support the development of our Hospitality business.

The deficit on our defined benefit pension scheme fell as inflation assumptions moderated and asset values were maintained.

DIVIDEND AND SHAREHOLDER RETURN

The Board is pleased to recommend a maintained final dividend of 9.2p, leaving the total dividend for the year at 14.0p. The improvement in profitability demonstrated in the year has increased our overall dividend cover to a level of 1.4 times and the Group currently trades on a dividend yield of almost 5%. The Board maintained dividends during the economic crisis despite lower profit levels and intends to return to a progressive dividend policy in the future, if the Group demonstrates further improvements in profitability and continued strong cash flow.

Total shareholder returns fell slightly during the year against a backdrop of lower market equity valuations. We have delivered compound returns to shareholders of 7% per annum over the last five years and our overall returns remain comfortably above our benchmark indices over both one and five year timescales.

"We generated strong cash flows during the year"

Above: Churchill Super Vitrified Contempo

"Churchill continues to invest for the long term in sales, marketing and design expertise"

HOSPITALITY

2011 was a very encouraging year in our Hospitality business, delivering record sales of £29.2m up 6.5% on the previous year (2010: £27.4m) and materially ahead of 2007 (£28.6m) which was our highest previous record. Operating profit increased by 16.2% from £4.1m to £4.7m, a direct result of this increase in revenue.

We improved our market leading position in the UK by increasing Hospitality sales by 6% in spite of the disappointing economic environment, underpinned by steady repeat business with existing customers but only limited new installations. We increased our total investment in sales and marketing in line with this increase.

Churchill is a major provider of ceramics to pubs, restaurants and the healthcare sector. We have now substantially extended our sector coverage to sell Ambience, Alchemy, Riedel and other products to premium accounts including international hotels and cruise lines. Our London showroom at the Business Design Centre has proved an excellent showcase for our products and we will shortly double its size as a reflection of increased activity; our customers will now be able to view the full Churchill product range alongside Riedel glassware and Guy Degrenne cutlery.

Our export sales increased by 7% and enjoyed significant new installation activity in international hotels, conference centres and cruise lines. New installation business has made a material contribution to the profitability of our Hospitality business and sales to new facilities were twice as high in 2011 as the previous year. Notable was our growing success in the Middle East which was reflected most recently in a large sale to the highly prestigious Qatar National Conference Centre for our Ambience fine china.

Churchill continues to invest for the long term in sales, marketing and design expertise focused on our key markets. This capability is building important long term relationships with end users and distributors coupled with a continuous programme of product innovation and range extension. Our strategy for new product development is targeted at specific market sectors that vary significantly by segment and geography and where practicable we tailor new product propositions directly to these customer groups emphasising knowledge of food trends, performance in use and overall functionality.

Above: Churchill Super Vitrified Vintage Prints

"We are passionate about manufacturing in the United Kingdom"

OPERATIONS

We maintained manufacturing volumes throughout 2011 generating high efficiency levels. Our capital expenditure of £1.3m in the year was slightly lower than the previous year and principally directed at extending our manufacturing capability, reducing energy consumption and the overall efficiency of our operations. Specifics include further installation of robotics.

We are committed to innovation in the ceramics industry and our rate of new product introduction continues to escalate. We introduced over 250 new products in 2011 compared to 88 in the previous year and expect the rate of new product introduction to accelerate further in 2012.

We are passionate about manufacturing in the United Kingdom and have invested almost £20m in our operations over the last decade to ensure that we will continue to be able to develop and manufacture the products our markets require effectively.

Above: RHS The Garden

“Our Retail business increased operating profits”

RETAIL

Our Retail business increased operating profits from £0.7m to £1.0m in 2011 on significantly lower turnover of £13.1m (2010 £16.3m). This result reflected the fundamental repositioning of our Retail business which has been underway for more than two years. Our strategy has been to focus our effort on delivering profitable middle market sales growth, primarily to the independent sector and to exit low margin, volatile and inherently higher risk business mainly in the UK and USA. Lower sales levels have allowed us to reduce the cost base of the Retail business and release significant amounts of working capital.

Sales of our mid market product to the UK independent sector, Korea and Japan were supported by new introductions of Queens and Churchill product ranges together with our prestige brand portfolio. We have been encouraged by our success with UK independent retailers who have performed better for Churchill than we might have expected given the economic environment. Non-traditional retail outlets such as garden centres and cook shops are offering the consumer high quality branded merchandise, with high design content that is appealing for giftware and other occasions and appears more attractive than own label products offered by many of the major retailers. The Churchill design and marketing team are a critical part of our success in this area, developing new retail product offerings which have been well received at major trade fairs and leading to new listings.

Above: Hidden World

"Our results in 2011 are a tribute to the effectiveness and team spirit of our staff"

I have said before that we have some great people in Churchill whose enthusiasm, dedication, skills and effort is fundamental to our success. We are very proud of our workforce across the business whether in the factory, warehouse or in the offices. They work very effectively as an integrated team to sustain our performance in uncertain economic times. Our results in 2011 are a tribute to the effectiveness and team spirit of our staff. I am delighted by the generosity and goodwill of Churchill's workforce. Charities such as Douglas MacMillan, the Donna Louise Trust and South African schools have been the main beneficiaries of the many fundraising events undertaken throughout the year. On a separate note I would like to extend particular thanks to Iain Hicks who has stepped down from the Board after 5 years service in order to concentrate on delivering major projects within our supply chain and IT systems.

Above: Alchemy Ambience

"I am confident that Churchill will deliver enhanced shareholder value in 2012 and beyond"

The profile of our business continues to change. We have clear strategies for growth in our Hospitality business and have repositioned our Retail business which is now delivering improved margins with reduced risk.

Continued investment in UK manufacturing, sales and marketing and new product development will be a key feature of 2012. We have a strong balance sheet and are generating attractive long term cash flows from operations which will allow us to sustain this investment and maintain an attractive return to shareholders. I am confident that Churchill will deliver enhanced shareholder value in 2012 and beyond.

Jonathan Sparey
Chairman
27 March 2012

Above: Alchemy Signature Tile

Above Top: Riedel Glass
Above Bottom: Guy Degrenne Cutlery with Vintage Prints

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2011.

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 37.

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 2011 and 31 December 2010:

	2011	2010
	£'000	£'000
Ordinary dividend:		
Final dividend 2010 9.2p (Second interim dividend 2009: 9.2p) per 10p ordinary share	**1,005**	1,004
Interim dividend 2011 4.8p (2010: 4.8p) per 10p ordinary share	**525**	525
	1,530	1,529
The Directors now recommend payment of the following dividend:		
Ordinary dividend:		
Final dividend 2011 9.2p (2010: 9.2p) per 10p ordinary share	**1,005**	1,005

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 *
A D Roper
D J S Taylor
D M O'Connor
I T Hicks (resigned 2 December 2011)
J W Morgan*
A J McWalter * (appointed 5 January 2011)

* Non executive

The Directors retiring by rotation are D J S Taylor and D M O'Connor who being eligible, offer themselves for re-election. The unexpired terms of the service contracts of D J S Taylor and D M O'Connor are twelve months.

J N E Sparey has now served as a non Executive Director of the Company for over 11 years and as such is required due to the principles of the UK Corporate Governance Code to retire and seek re-election as a Director on an annual basis. The unexpired term of his service contract is twelve months.

The biographical details of the Directors are as follows:

Jonathan Sparey, non executive Chairman, aged 54, is a senior partner and member of the Global Leadership Team of 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 63, has worked for the Company since 1973. He has responsibility for the development of Group strategy and for operational performance and development. He was appointed to his present role in 2007 following on from his role as Group Managing Director since 1998.

David Taylor, Finance Director and Company Secretary, aged 52, has worked for the Group for 20 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.

David O'Connor, Chief Operating Officer, aged 55, has worked for Churchill for 21 years in a number of production, operations and marketing roles. He has extensive experience within the Ceramics industry and joined the Board in 1999.

Jonathan Morgan, non executive Director, aged 54, is a Director of SVG Investment Managers Limited and has many years of experience in investment management within small and medium sized growth companies. He was previously Managing Director of Prudential plc's Private Equity business in Europe and Asia Pacific. He joined the Board in 2007.

Alan McWalter, non executive Director, aged 58, joined the Group in January 2011. He is a Director of several listed and private companies and has extensive high level experience within marketing roles in a number of major companies in the Retail and Consumer Goods sectors.

Business review

Business environment

The Group operates in many different geographic markets serving hospitality and retail customers with a range of tabletop products. Whilst our principal exposure is to the UK market, where we generate over 60% of our gross revenue, we also enjoy significant sales to Europe and North America which respectively account for 19% and 7% of our turnover. Almost without exception all of these markets are subject to a high level of competitive pressure and our costs of operation require constant review and control.

Hospitality markets have generally performed well, with maintained levels of dining out in the UK and continued investment by pub, restaurant and hotel owners. There has been some evidence of the impact of more difficult economic conditions in Europe although these have been offset by improvements to our product range and competitiveness. Hospitality markets are generally more long-term in their outlook and there are barriers to entry given the nature and structure of the market which places a premium on service, quality and technical performance.

Retail markets, particularly in volume sectors in the UK and abroad, have been more difficult and we have withdrawn from more price sensitive areas of business. As a result our overall revenues have fallen, although the profit impact of this fall has been offset by a reduction in resource and cost allocated to this business. Whilst customers and consumers have been affected by harsher economic conditions our revised focus has allowed us to improve our profitability. In retail markets our 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 providers, particularly in volume distribution channels.

We believe that there has been a general decrease in the overall size of our markets during the year as global macro-economic conditions have become more difficult and consumer confidence has declined. Progress has only been possible given clear focus on long-term market development, careful management of commercial relationships and a consistent programme of investment. Forecasts for the UK and our major export markets suggest that economic growth will remain restrained in 2012. Our forward planning process assumes that there will be no major economic growth in 2012 and we continue to manage our business accordingly.

The cost of imported product has risen through 2011 due to increased inflation in Far Eastern economies and exchange rate issues. Our UK manufacturing operations remain subject to tight cost control. Labour rates have risen marginally during the year, but are expected to remain stable during 2012. Material costs have risen given general commodity price rises and energy costs are generally higher than those experienced in the corresponding period of 2011 although we expect lower usage following investment in energy efficient machinery.

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.

Our long-term aim is to build revenues in markets offering a reasonable and repeatable level of profitability and to reduce our exposure to markets and customers where the margin on sales does not adequately cover our costs of operation. At present this leads us towards development of revenues in hospitality markets worldwide and in the independent and department store sectors of the retail market.

Our strategies are designed to allow us to identify markets where we may profitably grow our revenues, to research customer product requirements and the distribution structure of those markets and then to invest to generate margin and ultimately a return for shareholders. This process builds on our established and market leading positions in hospitality ceramics and increasingly attractive retail middle market business.

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 products satisfying a range of design styles, product types and price points. All our products, whether ceramic or other complementary tabletop lines, are researched and designed within Churchill or in conjunction with experienced external manufacturers, designers and licensors. The ability to develop successful 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.

Quality

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.

We control and measure quality through a number of integrated systems in our business and, where applicable, in our suppliers. We also review customer feedback and maintain an 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.

Our production and logistic facilities have been designed to balance efficiency and flexibility within manufacturing to ensure that we can respond quickly to unexpected demand levels. 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. We invest regularly in these processes to maintain a market leading position 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.

Future outlook

The Board believes that whilst the short-term outlook for a number of our markets remains affected by general economic uncertainty, the strong positions we hold in a number of hospitality markets and the benefit from repositioning our retail business will mean that we will continue to be able to improve our overall business performance. Our strong financial position allows us to invest for the long-term and reduces the risk to the business from sudden changes in market conditions.

The Board continues to believe that long-term demand for hospitality products in developed markets will continue to increase as leisure related spending grows. There has been a long-term expansion in eating out in the UK and the Group intends to continue to extend 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. Our market development strategies are well resourced and have generated a number of new opportunities for us.

Retail markets have been generally difficult for several years driven by changes in the structure of distribution channels within the market place and intense competitive pressure. We expect this to continue and as a result have withdrawn from the most competitive sectors of the market where we do not believe there is an acceptable return for shareholders. We are therefore likely to see a fall in revenue in this area, but a better overall return.

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, however the Group will maintain a long-term, investment led approach to its development.

Principal risks and uncertainties

The Group's operations are subject to a number of risks, which are formally reviewed by the Board in a systematic manner on a regular basis. The key business risks currently 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. The Group actively manages its market exposure and profitability.

The risk inherent in each market is offset by regular review of market conditions and forecasts, 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 actively developing new geographic markets and introducing new product ranges. As we enter new markets this introduces new risks to the Group although it does also diversify our overall market exposure.

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 and the purchase of certain products for resale. Our non sterling receipts are principally denominated in US dollars and Euros. Against US dollar receipts we have a partial natural offset due to our overseas sourcing operations where the cost of purchase from our third party suppliers is generally denominated in US dollars.

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

Cost competitiveness and supply chain

Our markets have been subject to significant cost movements in recent years. We have augmented our UK production facilities with a wide range of third party suppliers who generally operate in lower cost environments. The use of these suppliers exposes us to risks in relation to interruption to supply and changes in cost structures arising from economic or regulatory change. We manage this risk by diversifying our sources.

Approximately two thirds of our sales are manufactured in our production facility. Whilst this provides a high quality and effective source of products it exposes us to risk in the case of the potential loss of availability of our factory for an extended period. This risk is controlled through management procedures, appropriate investment and ultimately insurance arrangements.

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 efficiently.

Customer and supplier creditworthiness

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

Product compliance

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

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

Key performance indicators

Sales and sales growth

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

Sales 2011: £42.3m (2010: £43.7m)

Sales growth 2011: -3% (2010: 5%)

Our sales to UK customers fell by 3% overall as volume Retail channels became more competitive and we withdrew from unprofitable accounts. This was partially offset by another strong performance from sales to UK hospitality accounts. Sales to Europe and North America also fell again, largely due to the effects of lower sales to poor margin volume retail accounts. The revised mix of sales better reflects our strategic target of focusing exclusively on better margin business in both the hospitality and retail sectors. Sales improved in other markets, particularly in the Middle East.

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 2011: £9.1m (2010: £8.2m)

The sustained increase in inventory holding levels reflects increased sales to Hospitality customers and the extension of our product range from ceramics to glass and cutlery. Retail stocks were reduced as revenues fell.

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 2011: £2.7m (2010: £2.3m)

Operating profit before tax increased in both our operating divisions. We incurred additional costs associated with longer term investment in new product development and in building inventory levels to support increased sales. Operating margins increased satisfactorily to 6.4% (2010: 5.2%) reflecting increased Hospitality revenues and the focus on more profitable retail accounts.

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

Profit before taxation 2011: £2.7m (2010: £2.3m)

Profit before taxation moved forward by over 16% as operating profits were increased and the, notional interest charge associated with our pension scheme liability reduced. Our share of the profit of our associate company Furlong Mills reduced following a review of the carrying value of the investment. Underlying trading performance remains acceptable.

Operating cash generation

The Group believes that over an extended time period it is important to generate cash at an operating level at least equivalent to declared operating profit. This measure identifies the effectiveness of our control over working capital demands and ensures that cash is available for further investment in the business, to meet taxation payments and to ensure that our shareholders receive an appropriate return.

Operating cash generation 2011: £5.9m (2010: £1.1m)

Percentage of operating cash generation to operating profit for the year 218% (2010: 48%).

Three year average percentage of operating cash generation to operating profit 144% (2010: 95%).

Operating cash generation increased given tight control of working capital. Receivable balances fell as both overall revenues reduced and the seasonal pattern of sales moved away from the fourth quarter. Cash collections improved. This was partially offset by increased inventory holdings to support longer term business development but the overall result remains satisfactory.

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 Group's strategy and goals. We have worked hard to develop and foster an open and constructive relationship with our employees and their trade union representation and meet with them regularly to discuss developments within the business.

Training and development at all levels within the business is actively promoted, from essential skills to professional qualifications. We have worked extensively with our local further education college through Train to Gain 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 strategic manufacturing objectives. In difficult economic times our focus on training demonstrates our long-term commitment to our workforce and this has helped overall morale, motivation and labour retention.

Our ongoing graduate programme continues to bring high quality recruits to the business. The early members of this programme are now reaching high levels within the organisation and represent a key part of our management team.

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

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 for all our employees.

Environment, social and community

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

The principal impact of the Group's operations on the environment are in relation to the energy it consumes and the waste products produced as part of its operations. Whilst the Company manufactures a product which may be re-used many 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 run on-going programmes to minimise energy usage and waste.

We understand that we have an impact on our local community and consider the effect of our actions on our local area. Where possible we work to reduce any adverse effects of our operations, consistent with the needs of other stakeholders within our business. We actively engage within our community the contact with our neighbours and local schools and particularly through local charity initiatives. We encourage and support our employees to become involved in community and charitable work.

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. We have increased our investment in the development of new products across the year to take advantage of new market opportunities. A significant effort is made to develop our process 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.

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 recently established an Australian branch.

Insurance for Directors

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

Financing

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

If additional financing is needed in the short-term the Group has access to short-term variable rate financing arrangements on an unsecured basis to provide finance for working capital requirements should they be required. The Group is currently ungeared and there are no assets currently subject to security, although cross guarantees exist between different Group companies. These assets would therefore form an alternative source of short to medium-term funding if this were required. Larger long-term funding requirements may be met from debt and equity sources if this is required.

The Group reviews and maintains adequate levels of liquidity to meet short-term operating commitments as part of its day to day treasury management. Longer term liquidity and cash requirements are reviewed as part of the Group's budgetary and strategic planning processes.

Financial instruments

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

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

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

Note 2 to the accounts includes financial risk considerations.

Land and buildings

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

Substantial shareholdings

The Directors have been advised of the following individual interests, or group of interests, other than those dealt with in the summary of Directors' interests in the Report of the Remuneration Committee, held by persons acting together, which at 19 March 2012 exceeded 3% of the Company's issued share capital:

Shareholder	Number of ordinary shares	Percentage
New Landfinance Holdings Limited	2,345,000	21.5%
J A Roper	1,102,500	10.1%
S Baker	1,100,000	10.1%
E S & S J Roper	837,265	7.7%
M J & G Roper	560,380	5.1%
Investec Wealth and Investment	485,857	4.4%
Henderson Global Investors Limited	440,000	4.0%

Share repurchase

During the year the Company repurchased 65,000 (2010: 32,000) 10p ordinary shares at a total cost of £177,000 (2010: £91,000) in order to improve overall shareholder return. 64,000 (2010: 35,400) shares were re-issued in respect of employee share option schemes for a total consideration of £122,000 (2010: £49,000). The maximum number of shares held by the Company during the year was 77,000 10p ordinary shares. The Company retains a power, subject to the fulfilment of certain conditions and as approved at the 2011 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 2011 was 35 days (2010: 36 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 (2010: £nil) and £3,000 (2010: £3,000) respectively. In addition to the above the Group regularly donates quantities of product to charitable causes. The estimated value of these donations in 2011 was £9,000 (2010: £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

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 prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent Company financial statements 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 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 and legislation in the United Kingdom governing the publication and dissemination of financial statements may differ 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 re-appointed will be proposed at the Annual General Meeting.

By order of the Board

D J S Taylor
Company Secretary
27 March 2012

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 value (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 in relation to short-term performance in the form of annual bonus schemes and longer term share based plans.
- 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 A J McWalter, 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), A M Basnett (HR Director, Churchill China (UK) Limited) and New Bridge Street, a company specialising in the provision of remuneration advice to listed companies.

Directors' emoluments

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

	Salary £	Performance bonuses £	Benefits in kind £	**Aggregate emoluments £**	Pensions (see below) £	**Aggregate emoluments including pensions £**
2011						
Executive						
A D Roper	200,000	56,000	966	**256,966**	–	**256,966**
D J S Taylor	184,000	51,520	1,119	**236,639**	16,560	**253,199**
D M O'Connor	191,333	54,600	1,023	**246,956**	17,293	**264,249**
I T Hicks *	126,225	29,317	938	**156,480**	8,836	**165,316**
Non executive						
J N E Sparey	59,333	–	–	**59,333**	–	**59,333**
J W Morgan	36,875	–	–	**36,875**	–	**36,875**
A J McWalter	36,875	–	–	**36,875**	–	**36,875**
	834,641	191,437	4,046	**1,030,124**	42,689	**1,072,813**
2010						
Executive						
A D Roper	200,000	5,000	1,039	**206,039**	–	**206,039**
D J S Taylor	170,231	10,000	12,959	**193,190**	11,916	**205,106**
D M O'Connor	184,000	25,000	1,135	**210,135**	12,880	**223,015**
I T Hicks	132,333	15,000	1,135	**148,468**	9,263	**157,731**
Non executive						
J N E Sparey	58,000	–	–	**58,000**	–	**58,000**
R S Kettel	12,644	–	–	**12,644**	–	**12,644**
J W Morgan	36,000	–	–	**36,000**	–	**36,000**
	793,208	55,000	16,268	**864,476**	34,059	**898,535**

* I T Hicks' remuneration is shown to the date of his resignation from the Board on 2 December 2011.

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 2011 and 2010.

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 section 'Pensions' below.

Share options

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

	Date of grant	**Number of options 31 December 2011**	Number of options 31 December 2010	Exercise Price pence	Date from which exercisable	Expiry date
D J S Taylor						
Unapproved Executive scheme	19.04.02	**–**	15,000	171	Apr 2005	Apr 2012
Unapproved Executive scheme	30.04.04	**10,000**	10,000	208	Apr 2007	Apr 2014
		10,000	25,000			
D M O'Connor						
Executive Scheme	30.04.04	**–**	4,000	208	Apr 2007	Apr 2014
Unapproved Executive Scheme	30.04.04	**6,000**	6,000	208	Apr 2007	Apr 2014
		6,000	10,000			
I T Hicks						
Approved Executive scheme	30.04.04	**–**	6,000	208	Apr 2007	Apr 2014
Unapproved Executive scheme	30.04.04	**4,000**	4,000	208	Apr 2007	Apr 2014
		4,000	10,000			

No share options were granted to Directors during the year.

On 26 October 2011 D J S Taylor exercised 15,000 share options granted under the Unapproved Executive Share Option Scheme at an exercise price of 171p, On the same day D M O'Connor exercised 4,000 share options granted under the Approved Executive Share Option scheme at an exercise price of 208p and I T Hicks exercised 6,000 share options granted under the Approved Executive Share Option scheme at an exercise price of 208p.

The market price at the date of exercise was 265p.

I T Hicks' outstanding options are disclosed as at the date of his resignation from the Board. There has been no change in his holding between 2 December 2011 and 27 March 2012.

Share options are granted to Directors in accordance with the terms of reference of the Remuneration Committee (see page 25) to provide encouragement to enhance Group performance in the long-term and having regard to each employees responsibilities, ability and contribution. The grant of options is made at market value at the date of grant at no cost to the employee.

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

Shares options are granted to other employees, however these employees are not considered key management as defined by IAS 24.

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 2011**	Number of phantom shares 31 December 2010	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 274.5p (2010: 305p). The range of prices for the year to 31 December 2011 was 339p to 255p (2010: 257.75p to 310.0p) per ordinary share.

Gains made by Directors on share options

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

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

	2011 £'000	2010 £'000
D J S Taylor	**14,100**	39,638
D M O'Connor	**2,280**	10,400
I T Hicks	**3,420**	–
	19,800	50,038

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	–	125,876	–
D J S Taylor	–	28,713	–
D M O'Connor	–	28,205	–
I T Hicks	–	17,063	–
	–	199,857	–

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

	Increase in benefit over the year (incl inflation) £	**Transfer value at 31 December 2011 £**	Transfer value at 31 December 2010 £	Change in transfer value less Directors' contributions £
A D Roper	9,867	**2,324,752**	1,924,740	400,012
D J S Taylor	1,363	**449,035**	371,331	77,704
D M O'Connor	1,339	**344,160**	281,382	62,778
I T Hicks	810	**130,809**	98,210	32,599
	13,379	**3,248,756**	2,675,663	573,093

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 2011 or the date of retirement if earlier.

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

The transfer value 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.

Pensions (continued)

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. 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. Only basic salary is pensionable. Contributions made by the Group were as shown on page 26.

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 twelve months from the Company or six 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 and D M O'Connor's on 21 March 2000.

Non executive Directors are appointed on fixed term contracts of two or three years duration. J N E Sparey and J W Morgan signed fixed term contracts of one years duration on 23 March 2012. A J McWalter signed a fixed term contract of three years duration on 31 December 2010.

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

Directors' interests

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

The interests of the Directors and their immediate families and family trusts at 31 December 2011 in the 10p ordinary shares of the Company were as follows:

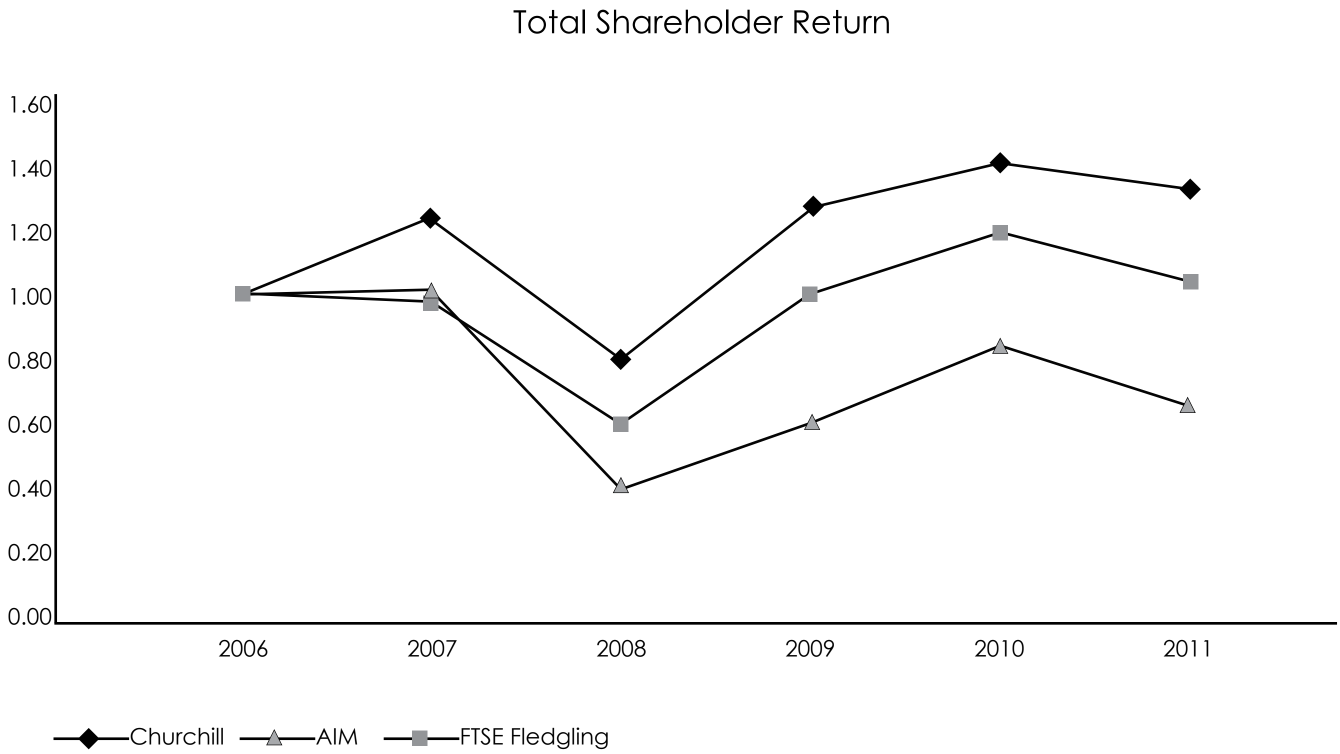
	2011	2010
A D Roper	**662,430**	662,430
D J S Taylor	**18,500**	17,500
D M O'Connor	**5,599**	5,599
J N E Sparey	**45,600**	45,600
J W Morgan	**28,000**	28,000
A J McWalter	**–**	–
	760,129	759,129

A D Roper's interest in the 10p ordinary shares of the Company at 31 December 2011 represented 6.1% (2010: 6.1%) of the Company's issued share capital.

Directors are encouraged to hold shares in the Company in order to align their interests with those of shareholders.

There has been no change in the interests set out above between 31 December 2011 and 27 March 2012.

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



(Source: N+1 Brewin Dolphin)

Over a five year period the Group's total return to shareholders has been substantially above that generated by the AIM index and well above that shown by the FTSE Fledgling index. Total returns from the Group in the year have been affected by the general fall in equity valuations, but have been supported by a further improvement in profitability and continuation of our dividend policy. Our overall five year return has remained positive at an average compound rate of almost 7% (AIM: -7%, FTSE Fledgling +2%). Over the five year period total shareholder return from the Company has been 38%, whilst that achieved by the AIM index as a whole was -30% and the FTSE Fledgling 9%. In the year to 31 December 2011 the overall return from the Company was -6%, the AIM index reported a -25% return and the FTSE Fledgling index fell by -13%

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

On behalf of the Board

J W Morgan
Chairman of the Remuneration Committee
27 March 2012

This statement is not audited.

As a Company quoted on the Alternative Investment Market of the London Stock Exchange, the Company is not required to comply with the UK Corporate Governance Code ("the Code"), however the Board supports the standards required by the 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 three executive and three non executive Directors and meets at least eleven times per year. It is felt that the current composition and operation of the Board is adequate to ensure a balance of power and authority. The non executive members of the Board take an active and influential part in Board procedures and a senior independent non executive Director, J W Morgan, has been formally appointed.

The Code recommends that the Boards of listed companies include at least three independent non executive Directors. The Board has fully reviewed the independence of non executive Directors and J W Morgan and A J McWalter are both considered to be independent under the terms of the Code. J N E Sparey is no longer considered to be independent given his period of service now exceeds eleven years. The Board does not consider that this is a material departure from the terms of the Code.

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	12
D J S Taylor	12	12
D M O'Connor	12	12
J N E Sparey	12	12
I T Hicks (until resignation)	12	12
J W Morgan	12	12
A J McWalter	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 two principal sub-committees of the Board.

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

The Board of Directors (continued)

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 on a regular basis. Individual reviews of risk areas are carried out and the results reported to the Board. Operational responsibility for each of the main risk areas has been clearly identified and are allocated to either Directors of the Company or of the Company's principal operating subsidiary Churchill China (UK) Limited, under the supervision of the Board as a whole. Individual managers and employees are also aware, where appropriate, of their responsibilities in both identifying and controlling risk.

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

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

Internal audit

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

Internal financial control

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

Going concern

The Board confirms that having made enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing financial statements.

By order of the Board

D J S Taylor
Company Secretary
27 March 2012

We have audited the Group and parent Company financial statements (the ''financial statements'') of Churchill China plc for the year ended 31 December 2011 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 operating 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2011 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company 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
27 March 2012

Consolidated Income Statement

for the year ended 31 December 2011

	Notes	**Total 2011 £'000**	Total 2010 £'000
Revenue	4	**42,296**	43,746
Operating profit	5	**2,713**	2,287
Share of results of associate company	15	**(41)**	162
Finance income	8	**52**	41
Finance costs	8	**(30)**	(176)
Profit before income tax		**2,694**	2,314
Income tax expense	10	**(598)**	(583)
Profit for the year		**2,096**	1,731
Attributable to equity holders of the Company		**2,096**	1,731
Earnings per ordinary share	11	**19.2p**	15.8p
Diluted earnings per share	11	**19.2p**	15.8p

All of the above figures relate to continuing operations.

The notes on pages 44 to 74 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 profit of the Parent Company for the year was £1,244,000 (2010: £68,000).

	2011	2010
	£'000	£'000
Other comprehensive income		
Actuarial gain on defined benefit obligations (note 22)	**573**	1,894
Currency translation differences	**(1)**	7
Other comprehensive income for the year	**572**	1,901
Profit for the year	**2,096**	1,731
Total comprehensive income for the year	**2,668**	3,632
Attributable to:		
Equity holders of the Company	**2,668**	3,632

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 2011

	Notes	2011 £'000	2010 £'000
Assets			
Non current assets			
Property, plant and equipment	13	**14,402**	15,030
Intangible assets	14	**236**	368
Investment in associate	15	**846**	887
Deferred income tax assets	21	**858**	1,266
		16,342	17,551
Current assets			
Inventories	18	**9,127**	8,197
Trade and other receivables	19	**7,767**	9,963
Cash and cash equivalents		**6,886**	4,442
		23,780	22,602
Total assets		**40,122**	40,153
Liabilities			
Current liabilities			
Trade and other payables	20	**(7,044)**	(6,735)
Current income tax liabilities		**(693)**	(501)
		(7,737)	(7,236)
Non current liabilities			
Deferred income tax liabilities	21	**(1,437)**	(1,678)
Retirement benefit obligations	22	**(3,295)**	(4,670)
Total liabilities		**(12,469)**	(13,584)
Net assets		**27,653**	26,569
Shareholders' equity			
Issued share capital	23	**1,096**	1,096
Share premium account	23	**2,348**	2,348
Treasury shares	24	**(89)**	(91)
Other reserves	25	**1,216**	1,202
Retained earnings	26	**23,082**	22,014
Total equity		**27,653**	26,569

The notes on pages 44 to 74 are an integral part of these consolidated financial statements.

The financial statements on pages 37 to 74 were approved by the Board of Directors on 27 March 2012 and were signed on its behalf by:

A D Roper
Director
Company number 2709505

D J S Taylor
Director

Company Balance Sheet

as at 31 December 2011

	Notes	2011 £'000	2010 £'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	**6,997**	6,861
Debtors: amounts falling due within one year	19	**265**	299
Cash at bank and in hand		**164**	611
		7,426	7,771
Creditors: amounts falling due within one year	20	**(16)**	(21)
Net current assets		**7,410**	7,750
Total assets less current liabilities		**9,960**	10,300
Net assets		**9,960**	10,300
Capital and reserves			
Called up share capital	23	**1,096**	1,096
Share premium account	23	**2,348**	2,348
Treasury shares	24	**(89)**	(91)
Other reserves	25	**24**	24
Profit and loss account	26	**6,581**	6,923
Total shareholders' funds		**9,960**	10,300

The notes on pages 44 to 74 are an integral part of these financial statements.

The financial statements on pages 37 to 74 were approved by the Board of Directors on 27 March 2012 and were signed on its behalf by:

A D Roper
Director

D J S Taylor
Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

	Retained earnings £'000	Share capital £'000	Share premium £'000	Treasury shares £'000	Other reserves £'000	Total £'000
Balance at 1 January 2010	19,992	1,095	2,332	(117)	1,234	24,536
Comprehensive Income:						
Profit for the year	1,731	–	–	–	–	1,731
Other comprehensive income:						
Depreciation transfer – gross	12	–	–	–	(12)	–
Depreciation transfer – tax	(18)	–	–	–	18	–
Actuarial gains – net of tax	1,894	–	–	–	–	1,894
Currency translation	–	–	–	–	7	7
Total comprehensive expense	3,619	–	–	–	13	3,632
Transactions with owners						
Dividends relating to 2009 and 2010 (note 12)	(1,529)	–	–	–	–	(1,529)
Proceeds of share issue	–	1	16	–	–	17
Share based payment	–	–	–	–	(45)	(45)
Treasury shares (note 24)	(68)	–	–	26	–	(42)
Total transactions with owners	(1,597)	1	16	26	(45)	(1,599)
Balance at 1 January 2011	22,014	1,096	2,348	(91)	1,202	26,569
Comprehensive Income:						
Profit for the year	2,096	–	–	–	–	2,096
Other comprehensive income:						
Depreciation transfer – gross	12	–	–	–	(12)	–
Depreciation transfer – tax	(27)	–	–	–	27	–
Actuarial gains – net of tax	573	–	–	–	–	573
Currency translation	–	–	–	–	(1)	(1)
Total comprehensive income	2,654	–	–	–	14	2,668
Transactions with owners						
Dividends relating to 2010 and 2011 (note 12)	(1,530)	–	–	–	–	(1,530)
Treasury shares (note 24)	(56)	–	–	2	–	(54)
Total transactions with owners	(1,586)	–	–	2	–	(1,584)
Balance at 31 December 2011	**23,082**	**1,096**	**2,348**	**(89)**	**1,216**	**27,653**

	2011 £'000	2010 £'000
Cash flow from operating activities		
Cash generated from operations (see page 43)	**5,922**	1,092
Interest received*	**52**	41
Interest paid	**(25)**	(20)
Income tax paid	**(557)**	(564)
Net cash generated from operating activities	**5,392**	549
Investing activities		
Purchases of property, plant and equipment	**(1,383)**	(1,507)
Proceeds on disposal of property, plant and equipment	**117**	129
Purchases of intangible assets	**(99)**	(58)
Net cash used in investing activities	**(1,365)**	(1,436)
Financing activities		
Issue of ordinary shares	**122**	67
Purchase of treasury shares	**(176)**	(91)
Dividends paid	**(1,530)**	(1,529)
Net cash used in financing activities	**(1,584)**	(1,553)
Net increase/(decrease) in cash and cash equivalents	**2,443**	(2,440)
Cash and cash equivalents at the beginning of the year	**4,442**	6,882
Exchange gains on cash and cash equivalents	**1**	–
Cash and cash equivalents at the end of the year	**6,886**	4,442

* 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

	2011 £'000	2010 £'000
Continuing operating activities		
Operating profit	**2,713**	2,287
Adjustments for:		
Depreciation and amortisation	**1,959**	1,530
Profit on disposal of property, plant and equipment	**(42)**	(12)
Credit for share based payments	**–**	(45)
Difference between pension service cost and contributions (see note 22)	**(495)**	(495)
Changes in working capital:		
Inventory	**(930)**	(1,055)
Trade and other receivables	**2,199**	(922)
Trade and other payables	**518**	(196)
Net cash inflow from operations	**5,922**	1,092

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) 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.

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

Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

New and amended standards adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the Group.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted:

IAS 19, 'Employee benefits' was amended in June 2011. The impact on the Group will be to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability or asset. The impact on the Group's current year pre tax profit would have been a reduction of £255,000.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It is not believed that this will have any significant impact on the Group.

IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.

IFRS 10, Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent Company. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities. The Group is yet to assess IFRS 12's full impact, but does not believe it to be significant and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and disclosure requirements for use across IFRSs. The Group is yet to assess IFRS13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

1 Summary of significant accounting policies (continued)

Basis of consolidation

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

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

(a) Subsidiaries

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

The acquisition method of accounting is used to account for the purchase 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. Acquisition related costs are expensed as incurred. 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.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount within 'share of profit of associated Company' in the Income Statement.

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.

1 Summary of significant accounting policies (continued)

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 the Board of Churchill China plc. 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.

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.

1 Summary of significant accounting policies (continued)

Retirement benefit costs

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

The defined benefit scheme is valued every three years by a professionally qualified independent Actuary. In intervening years, the Actuary reviews the continuing appropriateness of the valuation. 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 in the year, together with differences arising from changes in actuarial assumptions.

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

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 Income Statement 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 Income Statement 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.

1 Summary of significant accounting policies (continued)

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 presentation 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 accounted for 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.

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.

1 Summary of significant accounting policies (continued)

Property, plant and equipment

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

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

	%
Freehold buildings	2 on cost or valuation
Plant	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 Group 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.

Inventories

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

Available for sale financial assets

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

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

1 Summary of significant accounting policies (continued)

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 IAS39.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Cash and cash equivalents are as defined under IAS39.

Non current assets held for sale

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

Provisions

Provisions are recognised when (i) the 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.

Fixed asset 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) and to review likely forward exposures 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 2011, 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 £15,000 (2010: £27,000) 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 £11,000 (2010: £11,000) 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 £132,000 (2010: £140,000) 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 2011, 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 (2010: £4,000) 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	**2011**	2010
Lloyds Banking Group plc	A-	**6,009**	4,147
National Westminster Bank plc	A	**602**	25
Other	Min A-	**275**	270
		6,886	4,442

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.

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 £317,000 (2010: £211,000).

(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 22.

(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.

4 Segmental analysis (continued)

(a) Primary reporting format – business segments

The business is managed in two main business segments – Hospitality and Retail.

	31 December 2011			
	Hospitality £'000	**Retail £'000**	**Unallocated £'000**	**Group £'000**
Revenue from external customers	**29,166**	**13,130**	**–**	**42,296**
Contribution to Group overheads excluding depreciation	**5,765**	**1,311**	**(2,404)**	**4,672**
Depreciation and amortisation	**(1,055)**	**(303)**	**(601)**	**(1,959)**
Operating profit	**4,710**	**1,008**	**(3,005)**	**2,713**
Share of results of associate company				**(41)**
Finance income				**52**
Finance cost				**(30)**
Profit before income tax				**2,694**

	31 December 2010			
	Hospitality £'000	Retail £'000	Unallocated £'000	Group £'000
Revenue from external customers	27,398	16,348	–	43,746
Contribution to Group overheads excluding depreciation	4,914	1,060	(2,157)	3,817
Depreciation and amortisation	(859)	(305)	(366)	(1,530)
Operating profit	4,055	755	(2,523)	2,287
Share of results of associate company				162
Finance income				41
Finance cost				(176)
Profit before income tax				2,314

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 (2010: £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.

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

4 Segmental analysis (continued)

Segment assets and liabilities at 31 December 2011 and capital expenditure for the year ended on that date are as follows:

	Hospitality	Retail	Unallocated	Group
	£'000	**£'000**	**£'000**	**£'000**
Assets excluding inventories	**14,553**	**5,383**	**10,213**	**30,149**
Inventories	**6,479**	**2,648**	**–**	**9,127**
Investment in associates	**–**	**–**	**846**	**846**
Total assets	**21,032**	**8,031**	**11,059**	**40,122**
Total liabilities	**3,742**	**727**	**8,000**	**12,469**
Capital expenditure	**972**	**37**	**265**	**1,274**

Segment assets and liabilities at 31 December 2010 and capital expenditure for the year ended on that date are as follows:

	Hospitality	Retail	Unallocated	Group
	£'000	**£'000**	**£'000**	**£'000**
Assets excluding inventories	15,229	7,456	8,384	31,069
Inventories	5,311	2,886	–	8,197
Investment in associates	–	–	887	887
Total assets	20,540	10,342	9,271	40,153
Total liabilities	3,778	899	8,907	13,584
Capital expenditure	1,006	123	457	1,586

Any sales between segments are carried out on an arms length basis.

(b) Secondary reporting format – geographical segments

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

	2011	2010
	£'000	£'000
Geographical segment – Revenue		
United Kingdom	**26,757**	27,568
Rest of Europe	**7,951**	8,666
North America	**3,039**	4,368
Other	**4,549**	3,144
	42,296	43,746

The total assets of the business are allocated as follows:
United Kingdom £39,220,000 (2010: £39,362,000), Rest of Europe £80,000 (2010: £43,000), North America £710,000 (2010: £743,000), Other £112,000 (2010: £5,000).

Capital expenditure was made as follows:
United Kingdom £1,225,000 (2010: £1,586,000), Rest of Europe £49,000 (2010: £ nil).

5 Expenses by nature

	Total 2011 £'000	Total 2010 £'000
Changes in inventories of finished goods and work in progress	**(956)**	(1,039)
Raw materials used	**2,808**	2,775
Purchase of goods for resale	**9,139**	11,446
Employee benefit expense (note 7)	**15,128**	15,421
Other external charges	**11,553**	11,323
Depreciation and amortisation charges	**1,959**	1,530
Profit on disposal of property, plant and equipment	**(42)**	(12)
Foreign exchange (gains)/losses	**(6)**	15
Total cost of sales, distribution costs and administrative expenses	**39,583**	41,459

6 Average number of people employed

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

	2011 Number	2010 Number
By activity		
Production and warehousing	**349**	340
Sales and administration	**191**	215
	540	555

The Company had no employees (2010: none).

7 Employee benefit expense

	2011 £'000	2010 £'000
Staff costs (for the employees shown in note 6)		
Wages and salaries	**13,412**	13,753
Social security costs	**1,139**	1,154
Defined contribution pension cost (see note 22)	**421**	405
Other pension costs (see note 22)	**156**	154
Share options granted to Directors and employees (see note 23)	**–**	(45)
	15,128	15,421

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 (2010: nil).

8 Finance income and costs

	2011 £'000	2010 £'000
Interest income on cash and cash equivalents	**52**	41
Finance income	**52**	41
Interest on pension scheme (note 22)	**(5)**	(156)
Other interest	**(25)**	(20)
Finance costs	**(30)**	(176)
Net finance income/(costs)	**22**	(135)

9 Auditors' remuneration

Amounts paid to the Group's auditors were as follows:

	2011 £'000	2010 £'000
Audit services – audit of subsidiaries	**67**	75
Audit services – audit of parent and consolidated financial statements (Company £2,000, 2010: £1,500)	**7**	7
Non-audit services – taxation advice	**13**	13
Non audit services – other	**7**	–
	94	95

10 Income tax expense

Group	2011 £'000	2010 £'000
Current tax – current year	**773**	535
– adjustment in respect of prior periods	**(30)**	(45)
	743	490
Deferred tax (note 21)		
Origination and reversal of temporary differences	**(145)**	93
Income tax expense	**598**	583

During the year the main rate of corporation tax was reduced from 28% to 26%. This change was substantively enacted on 29 March 2011 and effective from 1 April 2011.

In the March 2011 Budget it was announced that the main rate of corporation tax would reduce from 26% to 25%, effective from 1 April 2012. This reduction was substantively enacted on 5 July 2011 and is therefore reflected in these financial statements.

Further reductions to the main rate of corporation tax were announced in the March 2012 Budget. The changes, which are expected to be enacted separately each year, propose to reduce the main rate of corporation tax to 24% effective from 1 April 2012 and then by 1% per annum to 22% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements. The impact of the future proposed reductions in the tax rate would not result in a material adjustment to the financial statements.

10 Income tax expense (continued)

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

	2011	2010
	£'000	£'000
Profit before income tax	**2,694**	2,314
Tax calculated at domestic tax rates applicable to profits in the respective countries	**714**	648
Expenses not deductible for tax purposes	**10**	18
Adjustment in respect of prior periods	**(30)**	(45)
Change in tax rate	**(110)**	(66)
Other	**14**	28
Tax charge	**598**	583

The weighted average applicable tax rate was 26.5% (2010: 28%).

During the year a charge of £312,000 (2010: £806,000) in relation to deferred tax arising from actuarial gains and losses on the Group's defined benefit pension obligation and a credit of £27,000 (2010: £18,000) in relation to the reversal of deferred taxation on the revaluation of land and buildings were adjusted directly within equity.

11 Earnings per ordinary share

The basic earnings per ordinary share is based on the profit after income tax and on 10,921,563 (2010: 10,934,092) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

	2011	2010
	Pence per share	Pence per share
Basic earnings per share (Based on earnings £2,096,000 (2010: £1,731,000))	**19.2**	15.8

Diluted earnings per ordinary share is based on the profit after income tax and on 10,931,463 (2010: 10,964,639) ordinary shares, being the weighted average number of ordinary shares in issue during the year of 10,921,563 (2010: 10,934,092) increased by 9,900 (2010: 30,547) 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.

	2011	2010
	Pence per share	Pence per share
Diluted basic earnings per share (Based on earnings £2,096,000 (2010: £1,731,000))	**19.2**	15.8

12 Dividends

The dividends paid in the year were as follows:

Ordinary	2011 £'000	2010 £'000
Final dividend 2010 9.2p (Second interim dividend 2009: 9.2p) per 10p ordinary share	**1,005**	1,004
Interim 2011 4.8p per 10p ordinary share paid (Interim 2010: 4.8p)	**525**	525
	1,530	1,529

The Directors now recommend payment of the following dividend:

Ordinary dividend:		
Final dividend 2011 9.2p (2010: 9.2p) per 10p ordinary share	**1,005**	1,005

13 Property, plant and equipment

The Company has no property, plant and equipment (2010: none). Details of those relating to the Group are as follows:

Group	Freehold land and buildings £'000	Plant £'000	Motor vehicles £'000	Fixtures and fittings £'000	Total £'000
At 1 January 2010					
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
Year ended 31 December 2010					
Opening net book amount	9,660	3,622	480	537	14,299
Additions	114	813	306	309	1,542
Disposals	–	–	(117)	–	(117)
Transfer from assets held for sale	662	–	–	–	662
Depreciation charge	(186)	(801)	(140)	(229)	(1,356)
Closing net book amount	10,250	3,634	529	617	15,030
At 31 December 2010					
Cost	11,880	16,677	923	2,540	32,020
Accumulated depreciation	(1,630)	(13,043)	(394)	(1,923)	(16,990)
Net book amount	10,250	3,634	529	617	15,030
Year ended 31 December 2011					
Opening net book amount	10,250	3,634	529	617	15,030
Additions	92	825	176	84	1,177
Disposals	–	–	(66)	(9)	(75)
Depreciation charge	(293)	(990)	(147)	(300)	(1,730)
Closing net book amount	**10,049**	**3,469**	**492**	**392**	**14,402**
At 31 December 2011					
Cost	11,972	17,502	905	2,611	32,990
Accumulated depreciation	(1,923)	(14,033)	(413)	(2,219)	(18,588)
Net book amount	**10,049**	**3,469**	**492**	**392**	**14,402**

14 Intangible assets

The Company has no intangible fixed assets (2010: none). Details of these relating to the Group are as follows:

Group	Computer software £'000
At 1 January 2010	
Cost	788
Accumulated amortisation	(290)
Net book amount	498
Year ended 31 December 2010	
Opening net book amount	498
Additions	44
Amortisation charge	(174)
Closing net book amount	368
At 31 December 2010	
Cost	832
Accumulated amortisation	(464)
Net book amount	368
Year ended 31 December 2011	
Opening net book amount	368
Additions	97
Amortisation charge	(229)
Closing net book amount	**236**
At 31 December 2011	
Cost	929
Accumulated amortisation	(693)
Net book amount	**236**

15 Investment in associate

	Group 2011 £'000	Group 2010 £'000	**Company 2011 £'000**	Company 2010 £'000
Cost				
At 1 January	**1,072**	876	**355**	355
Share of profit	**80**	196	**–**	–
At 31 December	**1,152**	1,072	**355**	355
Impairment				
At 1 January	**185**	151	**–**	–
Impairment of investment in associate	**121**	34	**–**	–
At 31 December	**306**	185	**–**	–
Net book value				
Closing net book amount	**846**	887	**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.

15 Investment in associate (continued)

	2011 £'000	2010 £'000
Share of associate's assets	**1,465**	1,456
Share of associate's liabilities	**(263)**	(370)
Share of associate's net assets	**1,202**	1,086

The total revenue of Furlong Mills Limited for its year ended 31 December 2011 was £6,476,000 (2010: £6,137,000) and profit before tax was £365,000 (2010: £340,000). During the year the Group purchased raw materials to a value of £1,934,000 (2010: £1,932,000) from Furlong Mills Limited.

The difference between the carrying value of the Group's interest in associate and the share of associate's net assets represents an impairment charged in the Group's accounts and adjustments in relation to accounting policies. This impairment reflects the Board's view of the recoverable amount of the investment calculated using a discounted cash flow model.

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

16 Investment in subsidiaries

Company

	2011 £'000	2010 £'000
Cost or valuation		
At 1 January and 31 December	**2,627**	2,627
Impairment		
At 1 January and 31 December	**432**	432
Net book value		
At 31 December	**2,195**	2,195

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

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 2011	–	43
Impairment		
At 1 January and 31 December 2011	–	43
Fair value/Net book value		
At 1 January and 31 December 2011	–	–

The above represents 35.9% (2010: 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 (2010: none). Details of inventory relating to the Group are as follows:

	2011 £'000	2010 £'000
Raw materials	**46**	72
Work in progress	**473**	584
Finished goods	**8,608**	7,541
	9,127	8,197

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 £23,718,000 (2010: £25,696,000).

19 Trade and other receivables

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Trade receivables	**7,456**	9,738	**–**	–
Less: provision for impairment of trade receivables	**(304)**	(234)	**–**	–
Trade receivables – net	**7,152**	9,504	**–**	–
Other	**198**	223	**110**	150
Prepayments	**411**	236	**–**	–
Current income tax assets	**6**	–	**–**	–
Receivables from related parties (note 28)	**–**	–	**7,152**	7,010
	7,767	9,963	**7,262**	7,160
Less non-current portion: loans to related parties	**–**	–	**6,997**	6,861
Current portion	**7,767**	9,963	**265**	299

All non current receivables are due within five 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 three months past due and not covered by insurance arrangements are not considered impaired unless there is specific evidence to the contrary.

As of 31 December 2011, trade receivables of £6,609,000 (2010: £7,201,000) were fully performing.

As of 31 December 2011, trade receivables of £467,000 (2010: £2,058,000) were past due but not impaired. The ageing of these receivables is as follows:

	2011 £'000	2010 £'000
Up to 3 months	**444**	1,918
3 to 6 months	**23**	118
Over 6 months	**–**	22
	467	2,058

19 Trade and other receivables (continued)

As of 31 December 2011 trade receivables with a gross value of £380,000 (2010: £479,000) were impaired and provided for. The amount of provision for 31 December 2011 was £304,000 (2010: £234,000). 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:

	2011	2010
	£'000	£'000
Up to 3 months	**277**	350
3 to 6 months	**30**	43
Over 6 months	**73**	86
	380	479

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:

	2011	2010
	£'000	£'000
At 1 January	**234**	147
Provision for receivables impairment	**93**	234
Receivables written off during the year as uncollectible	**(23)**	(147)
At 31 December	**304**	234

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.

Other receivables within trade and other receivables also include impaired assets. The recoverability of certain loans receivable to a total value of £202,000 (2010: £215,000) have been reviewed and an impairment provision of £60,000 (2010: £nil) established. The charge associated with the creation of this provision has been included in 'other external charges' in the income statement (note 5).

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

	2011	2010
	£'000	£'000
Pounds	**6,182**	7,388
Euros	**800**	922
US dollar	**785**	1,653
	7,767	9,963

During the year the Group realised losses of £6,000 (2010: £15,000) on settled 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 £2,248,000 (2010: £765,000) and the sale of US dollars of £319,000 (2010: £ nil). These contracts are held at their fair value with a gain of £73,000 (2010: loss of £12,000) recognised in relation to the contracts outstanding at the year end.

19 Trade and other receivables (continued)

Company

As of 31 December 2011, Company receivables of £7,152,000 (2010: £7,160,000) were fully performing. Amounts receivable are repayable in accordance with agreed terms. No interest is chargeable.

Other receivables of £138,000 (2010: £150,000) gross were impaired and provided for. The amount of this provision at 31 December 2011 was £28,000 (2010: £nil). Interest is chargeable on these receivables.

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

	2011 £'000	2010 £'000
Pounds	**7,216**	7,120
US dollar	**46**	40
	7,262	7,160

20 Trade and other payables

	Group		**Company**	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Trade payables	**1,505**	1,076	**–**	–
Amounts due to related parties	**84**	336	**13**	13
Social security and other taxes	**1,121**	923	**2**	7
Accrued expenses	**4,334**	4,400	**1**	1
	7,044	6,735	**16**	21

All the above liabilities mature within twelve months from 31 December 2011.

21 Deferred income tax

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

Group	**2011 £'000**	2010 £'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**678**	1,151
– Deferred tax asset to be recovered within 12 months	**180**	115
	858	1,266
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	**(1,387)**	(1,633)
– Deferred tax liabilities to be recovered within 12 months	**(50)**	(45)
	(1,437)	(1,678)
Deferred tax liability (net)	**(579)**	(412)

21 Deferred income tax (continued)

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

	2011 £'000	2010 £'000
At 1 January	**(412)**	487
Income statement credit/(charge) (note 10)	**145**	(93)
Tax charged directly to equity (note 26)	**(312)**	(806)
At 31 December	**(579)**	(412)

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 2010	1,327	349	1,676
Charged/(credited) to the income statement	20	(18)	2
At 31 December 2010	1,347	331	1,678
Credited to the income statement	(214)	(27)	(241)
At 31 December 2011	**1,133**	**304**	**1,437**

Deferred tax assets	**Accelerated tax depreciation £'000**	**Retirement benefit obligation £'000**	**Other £'000**	**Total £'000**
At 1 January 2010	–	(2,159)	(4)	(2,163)
Charged/(credited) to the income statement	–	92	(1)	91
Charged directly to equity	–	806	–	806
At 31 December 2010	–	(1,261)	(5)	(1,266)
(Credited)/charged to the income statement	(18)	125	(11)	96
Charged directly to equity	–	312	–	312
At 31 December 2011	**(18)**	**(824)**	**(16)**	**(858)**

21 Deferred income tax (continued)

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

	2011 £'000	2010 £'000
Fair value reserves in shareholders' equity:		
Tax on actuarial gain on retirement benefits scheme	**312**	806

Deferred income tax of £27,000 (2010: £18,000) was transferred from other reserves (note 25) to retained earnings (note 26). This represents deferred tax on the difference between the actual depreciation on buildings and the equivalent depreciation based on the historical cost of buildings.

Deferred income tax assets are recognised for tax 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 £1,349,000 (2010: £1,511,000) in respect of capital losses amounting to £5,395,000 (2010: £5,395,000) that can be carried forward against future capital gains.

22 Retirement benefit obligations

	2011 £'000	2010 £'000
Balance sheet obligations		
Pension benefits	**3,295**	4,670
Income statement charge		
Pension benefits	**577**	559
Finance cost	**5**	156

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

The assets of the schemes are held separately from those of the Group. The total pension cost for the Group was £577,000 (2010: £559,000). Of this cost £nil (2010: £nil), related to the Churchill Group Retirement Benefit Scheme, £171,000 (2010: £164,000) was in respect of the Churchill China 1999 Pension Scheme and £250,000 (2010: £241,000) 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 £59,000 (2010: £58,000).

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 £495,000 (2010: £495,000) 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 2011 triennial actuarial valuation in January 2012. The Group expects to make payments of £672,000 per annum from 1 February 2012 in respect of the amortisation of past service deficits.

22 Retirement benefit obligations (continued)

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

	2011 £'000	2010 £'000
Present value of funded obligations	**33,058**	34,898
Fair value of plan assets	**(29,763)**	(30,228)
Liability in balance sheet	**3,295**	4,670

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

	2011 £'000	2010 £'000
At 1 January	**34,898**	34,550
Interest cost	**1,954**	1,969
Actuarial gains	**(2,959)**	(887)
Benefits paid	**(835)**	(734)
At 31 December	**33,058**	34,898

Actuarial gains in 2011 include £2,170,000 (2010: £1,296,000) in respect of the change of inflation index from RPI to CPI used to calculate the increase of benefits in deferment and from retirement.

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

	2011 £'000	2010 £'000
At 1 January	**30,228**	26,841
Expected return on plan assets	**1,949**	1,813
Actuarial (losses)/gains	**(2,074)**	1,813
Employer contributions	**495**	495
Benefits paid	**(835)**	(734)
At 31 December	**29,763**	30,228

Plan assets are comprised as follows:

	2011		2010	
	£'000	£'000	£'000	£'000
Equity investments	**20,078**	**67%**	22,155	73%
Debt investments	**8,617**	**29%**	4,605	15%
Other	**1,068**	**4%**	3,468	12%
	29,763		30,228	

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.

22 Retirement benefit obligations (continued)

The amounts recognised in the income statement are as follows:

	2011	2010
	£'000	£'000
Interest cost	**1,954**	1,969
Expected return on plan assets	**(1,949)**	(1,813)
Net cost recognised in finance cost	**5**	156

The actual return on plan assets was a loss of £125,000 (2010: gain £3,626,000).

	2011	2010	2009	2008	2007
	£'000	£'000	£'000	£'000	£'000
At 31 December					
Present value of funded obligations	**33,058**	34,898	34,550	25,275	29,209
Fair value of plan assets	**29,763**	30,228	26,841	23,220	28,119
Liability in balance sheet	**3,295**	4,670	7,709	2,055	1,090
Experience adjustments on scheme assets:					
Amount	**(2,074)**	1,813	2,689	(6,463)	(200)
Experience adjustments on scheme liabilities:					
Amount	**403**	835	(414)	372	(192)

Actuarial gains and losses

Actuarial gains of £573,000 (2010: £1,894,000) were recognised in the Statement of Other Comprehensive Income during the year. The cumulative amount of actuarial losses recognised in the Statement of Other Comprehensive Income is £8,695,000 (2010: £9,580,000).

The principal actuarial assumptions used were as follows:

Pension benefits

	2011	2010
	0% per annum	0% per annum
Discount rate	**4.9%**	5.6%
Inflation rate – RPI	**3.1%**	3.6%
– CPI	**2.1%**	3.1%
Expected return on plan assets	**6.1%**	6.6%
Rate of increase of pensions in payment	**2.0%**	3.6%
Rate of increase of deferred pensions	**2.1%**	3.1%

Assumptions regarding future mortality rates are set based on advice in accordance with S1PA actuarial tables and experience.

22 Retirement benefit obligations (continued)

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

	2011 Number	2010 Number
Male	**20.3**	20.9
Female	**23.0**	24.2

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

	2011 Number	2010 Number
Male	**22.5**	22.8
Female	**25.2**	26.2

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 5.15% would be to reduce scheme liabilities by £1,483,000 (4.5%).

The effect of a 0.25% decrease in the discount rate to 4.65% would be to increase scheme liabilities by £1,578,000 (4.8%).

The effect of a 0.25% increase in RPI inflation to 3.35% and CPI inflation to 2.35% would increase scheme liabilities by £1,051,000 (3.2%).

The effect of a 0.25% decrease in RPI inflation to 2.85% and CPI inflation to 1.85% would decrease scheme liabilities by £993,000 (3.0%).

The effect of a 1 year increase to life expectancy would increase scheme liabilities by £765,000 (2.3%). The effect of a 1 year reduction in life expectancy would be to reduce scheme liabilities by £782,000 (2.4%).

23 Issued share capital and premium

Group and Company	**Number of shares 000s**	**Ordinary shares £'000**	**Share premium £'000**
At 1 January 2010	10,948	1,095	2,332
Employee share option schemes	10	1	16
At 31 December 2010 and 31 December 2011	10,958	1,096	2,348

The total authorised number of ordinary shares is 14,300,000 (2010: 14,300,000) with a par value of 10p (2010: 10p) per share. All issued shares are fully paid.

23 Issued share capital and premium (continued)

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 three years from the date of grant and expire ten years from the date of grant. Options granted will be exercisable given satisfaction of the requirement that adjusted earnings per ordinary share will increase by at least 6% above the increase in the Retail Price Index over the three year period from the beginning of the financial year in which the option was granted. Payment of the exercise price of options exercised is received in cash. A charge to the Income Statement 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.

It is the intention of the Board to submit a new Performance Share Plan, The Churchill China Long Term Incentive Plan, to the Annual General Meeting for approval by shareholders.

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 (30,000 lapsed, 44,000 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

The following options exercisable over ordinary shares were outstanding at 31 December 2011:

Number of shares	**2011**	2010	**Exercise price**	**Date from which exercisable**	**Expiry date**
The Executive share option scheme					
	–	33,000	208p	April 2007	April 2014
The unapproved Executive share option scheme					
	–	30,000	171p	April 2005	April 2012
	36,000	37,000	208p	April 2007	April 2014
	36,000	100,000			

23 Issued share capital and premium (continued)

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 2011 is set out below.

	2011 Number '000	**2011 Weighted average exercise price**	2010 Number '000	2010 Weighted average exercise price
Outstanding at 1 January	**100,000**	**196.9p**	156,000	182.8p
Forfeited/lapsed	**–**	**–**	(10,500)	205.3p
Exercised	**(64,000)**	**190.7p**	(45,500)	146.5p
Outstanding at 31 December	**36,000**	**208.0p**	100,000	196.9p
Exercisable at 31 December	**36,000**	**208.0p**	100,000	196.9p

There were no share options granted during the year (2010: £ nil).

	2011 Weighted average exercise price	**2011 Number '000**	**2011 Weighted average remaining life (expected)**	**2011 Weighted average remaining life (contractual)**	2010 Weighted average exercise price	2010 Number '000	2010 Weighted average remaining life (expected)	2010 Weighted average remaining life (contractual)
150p–199p	**–**	**–**	**–**	**–**	171p	30,000	0.0	0.9
200p–250p	**208p**	**36,000**	**0.0**	**2.3**	208p	70,000	740.0	3.3

The weighted average share price for options exercised in the period was 190.7p (2010: 146.5p). The total charge during the year for employee share based payment plans was £nil (2010: credit £45,000), all of which related to equity settled share based payment transactions.

24 Treasury shares

Group and Company	**£'000**
As at 1 January 2011	91
Purchase of own shares	176
Re-issue of shares	(122)
Transfer to retained earnings (note 26)	(56)
As at 31 December 2011	**89**

During the year the Group re-purchased 65,000 (2010: 32,000) 10p ordinary shares and re-issued 64,000 (2010: 35,400) of these under employee share option schemes. The Group currently holds 33,000 (2010: 32,000) shares in Treasury.

25 Other reserves

Group	Land and buildings revaluation £'000	Currency translation £'000	Share based payment £'000	Other reserves £'000	Total £'000
Balance at 1 January 2010	890	22	69	253	1,234
Depreciation transfer – gross	(12)	–	–	–	(12)
Depreciation transfer – tax	18	–	–	–	18
Share based payment credit	–	–	(45)	–	(45)
Currency translation	–	7	–	–	7
Balance at 31 December 2010	896	29	24	253	1,202
Depreciation transfer – gross	(12)	–	–	–	(12)
Depreciation transfer – tax	27	–	–	–	27
Currency translation	–	(1)	–	–	(1)
Balance at 31 December 2011	**911**	**28**	**24**	**253**	**1,216**

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 IFRS1 to treat this revalued amount as deemed cost on transition because it approximated to fair value at that time. The release between the revaluation reserve and the profit and loss reserve is the release to distributable reserves of the additional depreciation on revaluation.

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

Company
Other reserves of £24,000 (2010: £24,000) represent provision for share based payment as shown in the above table.

26 Retained earnings

	Group £'000	Company £'000
At 1 January 2010	19,992	8,452
Profit for the year	1,731	68
Dividends paid in 2010	(1,529)	(1,529)
Depreciation transfer on land and buildings net of tax	(6)	–
Actuarial gains net of tax	1,894	–
Transfer from treasury shares (note 24)	(68)	(68)
At 31 December 2010	22,014	6,923
At 1 January 2011	22,014	6,923
Profit for the year	2,096	1,244
Dividends paid in 2011	(1,530)	(1,530)
Depreciation transfer on land and buildings net of tax	(15)	–
Actuarial gains net of tax	573	–
Transfer from treasury shares (note 24)	(56)	(56)
At 31 December 2011	**23,082**	**6,581**

27 Commitments

Capital commitments

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

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Property, plant and equipment	**845**	604	**–**	–
Intangible assets: Computer software	**39**	44	**–**	–
	884	648	**–**	–

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	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Payments under operating leases charged against income during the year	**34**	4	**–**	–
Future aggregate minimum commitments under non-cancellable operating leases:				
No later than one year	**35**	3	**–**	–
Later than one year and no later than five years	**22**	–	**–**	–

28 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:

	2011	2010
	£'000	£'000
Subsidiaries		
Management charge to Churchill China, Inc	**6**	6
Interest received from Churchill China (UK) Limited	**5**	3
Dividend received from Churchill China (UK) Limited	**1,250**	–
New loans made/ (loans repaid) – Churchill China (UK) Limited	**136**	(1,639)
Loans outstanding as at the year end (mainly Churchill China (UK) Limited	**7,152**	7,010

29 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items in the accounts. All financial assets including cash and cash equivalents are classified as loans and receivables, with the exception of financial assets available for sale, in both 2011 and 2010, as disclosed in note 17.

Five Year Financial Record

	2007 £'000	2008 £'000	2009 £'000	2010 £'000	**2011 £'000**
Revenue	46,930	41,969	41,705	43,746	**42,296**
Operating profit before exceptional items	3,230	2,804	2,288	2,287	**2,713**
Share of results of associate net of impairment	120	(71)	(18)	162	**(41)**
Finance income/(cost)	694	629	(201)	(135)	**22**
Profit on ordinary activities before profit on disposal of fixed asset and exceptional items	4,044	3,362	2,069	2,314	**2,694**
Profit on disposal of property	798	–	–	–	**–**
Profit before taxation	4,842	3,362	2,069	2,314	**2,694**
Income tax expense	(1,147)	(938)	(513)	(583)	**(598)**
Income tax expense – exceptional	–	(919)	–	–	**–**
Profit after taxation	3,695	1,505	1,556	1,731	**2,096**
Dividends	1,375	1,531	1,526	1,529	**1,530**
Net assets employed	29,731	28,612	24,536	26,569	**27,653**
Ratios					
Operating margin before exceptional items	6.9%	6.7%	5.5%	5.2%	**6.4%**
Earnings before interest, tax, depreciation and amortisation (£000)	4,669	3,874	3,684	3,817	**4,672**
Basic earnings per share (p)	33.8	13.8	14.3	15.8	**19.2**
Adjusted basic earnings per share (p)	26.5	22.2	14.3	15.8	**19.2**

Earnings before interest, tax, depreciation and amortisation have been adjusted to take into account exceptional items and profit on disposal of property.

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 property and the recognition of related deferred tax assets.

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