CHURCHILL

China plc

Annual Report 2012

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Performance

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Uncompromising Service

Passion

Responsiveness

Above: Melamine & Wooden Buffet Trays

Financial Highlights

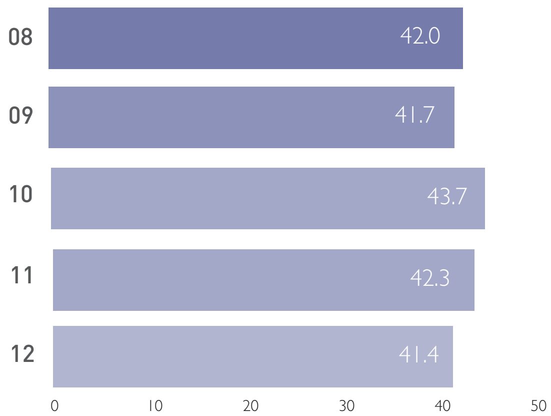
	2012 £000	2011 £000
Results		
Revenue - continuing operations	41,435	42,296
Operating profit - continuing operations	2,830	2,713
Share of results of associate company	18	(41)
Net finance income	239	22
Profit before income tax	3,087	2,694
Dividends paid	1,529	1,530
Key Ratios		
Operating margin	6.8%	6.4%
Basic earnings per share	22.2p	19.2p
Diluted basic earnings per share	22.0p	19.2p
Dividends paid per share	14.0p	14.0p

Above: Alchemy Canape Tray & Art de Cuisine Miniatures

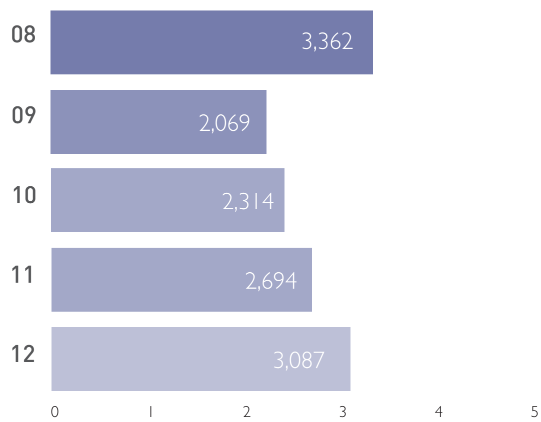
Above: Alchemy Canape Tray & Art de Cuisine Black Miniatures

Above: Alchemy Canape Tray & Art de Cuisine Black & White Miniatures

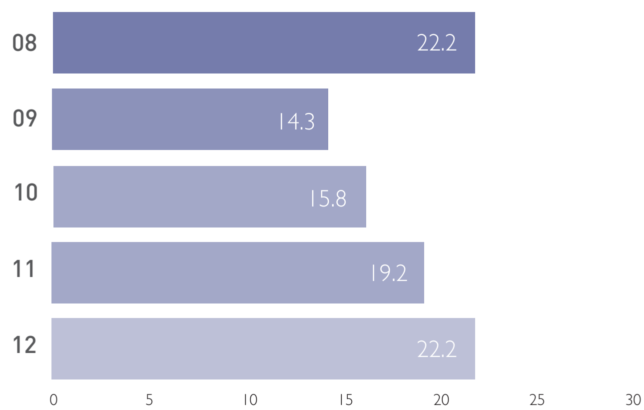
5 Year Performance



Revenue (£m)



Profit before exceptional items (£000)



Adjusted basic earnings per share (p)

Above: Alchemy Ambience

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 solid performance in 2012"

INTRODUCTION

I am very pleased to report that Churchill China delivered a solid performance in 2012, particularly in the last quarter of the year, achieving key objectives. Sales in our core Hospitality business continued to show improvement although the level of international contracts was lower than in 2011.

Our Retail business has been revitalised, delivering an increased contribution on a lower level of sales.

Total Group revenues were slightly lower at £41.4m (2011: £42.3m) reflecting the net effect of higher revenues in Hospitality and the impact of the planned reduction in Retail sales.

Group profit before tax for the year rose by 15% to £3.1m (2011: £2.7m). Churchill continues to operate with a strong balance sheet which included cash and deposit balances of £7.0m (2011: £6.9m) at the end of the year. The new financial year has started positively with good UK Hospitality sales and trading in the early months of 2013 has been encouraging.

Above Left: Penzance
Above Right: Julie Dodsworth

Above: Churchill Super Vitrified Glide

Above lifestyles from left to right: Alchemy Balance, Churchill Supervitrified Glide & Alchemy Buffet Trays

Group operating profit increased by 4% to £2.8m (2011: £2.7m) with margins rising from 6.4% to 6.8% whilst Earnings before interest, tax, depreciation and amortisation fell slightly by £0.2m to £4.4m.

Pre-tax profits increased by 15% to £3.1m (2011: £2.7m) as our improved trading performance was enhanced by a notional interest credit of £0.2m (2011: £nil) from our pension scheme reflecting the improved funding position at the start of the year.

Earnings per share improved by 16% to 22.2p (2011: 19.2p).

We continue to generate strong cash flows from operations although, at £3.4m, these were at lower levels than last year (2011: £5.9m) when we significantly reduced levels of working capital. The level of cash generation was again enhanced by a reduction in receivables, which fell to £7.3m (2011: £7.8m), offsetting a further rise in inventory as we expanded our Hospitality product range. As a result, our year end level of net cash and deposit balances increased slightly to £7.0m (2011: £6.9m).

The International Accounting Standards Board has revised IAS 19, the accounting standard applying to pension benefits, and the notional income on the scheme will be restricted in the future. We estimate that the credit of £0.2m enjoyed in 2012 will become a charge of £0.2m in 2013, despite an increase in the asset value of the scheme. This charge is a non-cash item. The present value of the deficit on the scheme increased as discount rates reduced, but remains at an acceptable level.

Dividend and Shareholder Return

The Board is pleased to recommend an increased final dividend of 9.4p (2011: 9.2p), making the total dividend for the year 14.2p (2011: 14.0p). The improvement in profitability demonstrated in the year has raised our overall dividend cover to a level of 1.6 times and Churchill continues to provide investors with a dividend yield of more than 4%. This increased dividend reflects the confidence of the Board in the performance and prospects of the business.

Total shareholder returns have risen over the year reflecting improved profitability, a healthy dividend and a general rise in equity valuations. We delivered an overall return to shareholders of 17% in 2012.

"We delivered an overall return to shareholders of 17% in 2012"

Above: Alchemy Signature Tile & Board



Above lifestyles: Churchill Super Vitrified Bamboo

"We maintained our market leading position in the UK"

HOSPITALITY

Our Hospitality business performed well in 2012 although revenues of £29.4m were only marginally ahead of the previous year (2011: £29.2m). Operating profit was lower at £4.2m (2011: £4.7m), adversely affected by the geographic mix of export sales, the impact of a stronger Sterling and increased investment in longer term business development.

We maintained our market leading position in the UK, delivering a very positive first half performance. The UK market slowed in the third quarter of 2012 reflecting a broader European economic uncertainty at the time but recovered in the last quarter, invariably a crucial period for the hospitality industry as a whole. Our export sales were stronger and better balanced across a wider range of accounts than in 2011 with strong sales in Eastern Europe and the Middle East, together with new distributors in Australia and Canada performing particularly well. Western European markets were more challenged, with respectable local currency performance in Spain for example, being negated by the currency effects upon translation.

We have continued to invest additional resources in sales, marketing and design expertise to meet identified demand in our key markets. We undertook a major investment in new product development which culminated in the modelling and launch of our new embossed shape "Bamboo" in January 2013.

Our stock levels increased during the year, notably of imported product in advance of the imposition of the EU anti-dumping duty surcharge. We also increased inventories of branded and non-ceramic product ranges in anticipation of increased demand.

Above: Churchill Super Vitrified Bamboo

"Our sustained commitment to invest in UK manufacturing and specifically to innovation in the ceramics industry"

MANUFACTURING and OPERATIONS

We maintained manufacturing volumes throughout 2012, operating at relatively high efficiency levels. We experienced a notable increase in demand for lithographed product from both Hospitality and Retail customers which contributed towards the creation of additional manufacturing jobs. We have also continued our investment in robotics.

At the end of 2012 we purchased a high technology glazing plant as part of our sustained commitment to invest in UK manufacturing and specifically to innovation in the ceramics industry. It is also in line with our long term strategy to reduce costs, improve quality and increase the operational flexibility of our manufacturing facility. We are making further investment in modern, gas efficient, glost-firing facilities over the next 12 months.

Above: Caravan Trail

“Our Retail business again increased operating profits”

RETAIL

Our Retail business again increased operating profits during the year to £1.4m (2011: £1.0m) on lower revenues of £12.0m (2011: £13.1m). The anticipated reduction in high volume, low margin sales was more than compensated by the shift in customer mix to higher quality sales in our middle market, principally, independent sector accounts.

We are very fortunate to be working with some of the UK’s top names including Cath Kidston, Jamie Oliver, Alex Clark, Julie Dodsworth and Dee Hardwicke. In 2012 we also signed a new licence with Belle and Boo.

At recent trade shows sales of our own brands have exceeded all expectations. These and other product ranges distributed to UK independent retailers and similar accounts in selected export markets remains at the core of our strategy.

Above: Little Rhymes Pirates

"The Churchill team demonstrates an extraordinary array of skills, talents and dedication"

The continued long term success of the business is inextricably linked to the quality of our people. The combined Churchill team demonstrates an extraordinary array of skills, talents and dedication.

We are fortunate to have been able to attract and retain key industry players over many years from potters and modellers to marketeers and managers.

In May this year we are hoping to raise £40,000 by means of a "teacup challenge" in aid of the Douglas MacMillan Hospice, a local charity which is celebrating its 40th birthday. In a time span of only 48 hours a teacup will be made, glazed, fired and packed and then carried and delivered to London by a relay of runners.

Above: Made With Love

“We are confident that the business strategies for both our Hospitality and Retail activities will deliver improved returns”

BOARD CHANGES

As announced in January, I will be retiring from the Board at the Annual General Meeting in May this year, and this will be my last Chairman’s Statement. I first met Churchill in 1998 and joined the Board in 2000 as a Non-Executive Director. I have participated in the Board during a transformation of the company at a time of huge structural changes in the UK ceramics industry. Churchill has emerged as a vibrant, dynamic and innovative business built upon a fine 200 year heritage with excellent prospects. At its heart is a passionate, talented and committed management team and workforce and I would like to thank all those involved in the company for making my tenure on the Board so rewarding.

Alan McWalter, who joined Churchill in 2011 as a Non-Executive Director, will succeed me as Chairman. Alan is a Non-Executive Director of Dignity plc and a Board member of a number of other companies. I have no doubt he will provide excellent direction to the Group in his new role.

PROSPECTS

Churchill China has delivered a good set of results for 2012 and has started 2013 on a positive note. We are confident that the business strategies for both our Hospitality and Retail activities will deliver improved returns.

We expect our Hospitality business to benefit from an increased level of new product introductions and to generate improved returns on investments made in 2012.

The recently imposed EU anti-dumping duty surcharge on Chinese ceramics is likely to have an effect on Retail margins in the short term, due to disruption of the supply chain and the natural delay in securing price increases. Given our UK manufacturing capacity we confidently expect they will have a positive effect on our revenues in the medium and longer term.

Churchill has a strong balance sheet and a significantly cash generative business model which enables us to sustain investment in our UK manufacturing base, in our sales and marketing resources and in an ambitious programme of new product development to drive future returns. I am confident we will continue to improve our operating performance in 2013.

Jonathan Sparey
Chairman
25 March 2013

Above: Cath Kidston

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2012.

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 2012 and 31 December 2011:

	2012	2011
	£'000	£'000
Ordinary dividend:		
Final dividend 2011 9.2p (Final dividend 2010: 9.2p) per 10p ordinary share	**1,005**	1,005
Interim dividend 2012 4.8p (2011: 4.8p) per 10p ordinary share	**524**	525
	1,529	1,530

The Directors now recommend payment of the following dividend:		
Ordinary dividend:		
Final dividend 2012 9.4p (2011: 9.2p) per 10p ordinary share	**1,027**	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
J W Morgan*
A J McWalter*

* Non Executive

The Directors retiring by rotation are A D Roper and J W Morgan who being eligible, offer themselves for re-election. The unexpired terms of the service contracts of A D Roper and J W Morgan are twelve months.

J N E Sparey has now served as a non Executive Director of the company for over 12 years and is retiring from the Board at the next Annual General Meeting.

The biographical details of the Directors are as follows:

Jonathan Sparey, Non Executive Chairman, aged 55, 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 64, 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 53, has worked for the Group for 21 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 56, has worked for Churchill for 22 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 55, 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 59, 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, principally ceramic tableware. Whilst our largest exposure is to the UK market, where we generate over 62% of our gross revenue, we also enjoy significant sales to Europe and North America which respectively account for 18% and 8% of our turnover. Almost without exception all of these markets are subject to 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 a major driver of demand for our products. The impact of more difficult economic conditions in Europe, together with the effects of stronger sterling across the year have been offset by benefits from improved distribution and developments in our product range. Our North American revenues have improved given changes in distribution route. Less developed markets have performed satisfactorily although with lower levels of new installation business. 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 have remained difficult with lower levels of consumer spending. We have however benefitted from our decision to withdraw from more price sensitive volume channel business to concentrate on higher margin sectors of the market. As a result whilst our overall revenues have fallen in this segment, we have reported increased margins and profitability. In Retail markets our customers are able to choose from a wide variety of alternative suppliers based both in the UK and overseas. We expect retail markets in particular to be more volatile in the early part of 2013 as the effects of a substantial rise in EU duty rates on Chinese imports are assessed by retailers and consumers.

We believe that there has been little overall growth in our markets during the year as difficult macro-economic conditions have persisted. Progress has only been possible given clear focus on long term market development, careful management of commercial relationships, a consistent programme of investment and some benefit from the Group's geographic spread of markets. Forecasts for the UK and our major export markets suggest that economic growth will remain restrained in 2013. Our forward planning process assumes that there will be no major economic growth in 2013 and we continue to manage our business accordingly.

The cost of imported product has continued to rise through 2012 due to increased inflation in Far Eastern economies. Our UK manufacturing operations remain subject to tight cost control but are a focus for further investment. The introduction of additional duties on Chinese imports should be positive for all UK ceramics manufacturers in the longer term. Labour rates and material and energy costs have risen again although we achieved some offsetting gains through increased efficiencies following on from earlier investments.

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 is 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 through active control of our cost base and a focus on cash generation.

Our long term aim is to build revenues in markets offering a reasonable and repeatable level of revenue and 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 on a long term basis. Our process is 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.

We also invest steadily in respect of increasing our production capability. This involves investment in new product development as well as capital investment in productive capacity.

It is a key strategic aim to design products that meet our end users requirements in terms of performance, shape and surface design. Our target markets require product that is aesthetically appealing whilst also performing to appropriate customer and technical standards.

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 and manufacture 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.

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 remains a major part 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 working processes 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.

Key performance indicators

Revenue and revenue growth

The absolute levels of revenue and revenue growth are reviewed regularly by business segment through the year against previous year, current year targets and against strategic expectations.

Revenue 2012: £41.4m (2011: £42.3m)

Revenue growth 2012: -2% (2011: -3%)

Our sales to UK customers fell by 3% overall as we withdrew from lower margin Retail accounts. This was partially offset by another good performance from sales to UK Hospitality accounts in a generally flat market and continued progress in extending our middle market Retail business. Sales to Europe fell as our principal markets were affected by poor economic conditions and sterling strengthened against the Euro. Sales to North America improved following changes in our distribution structure within the market. Our overall progress in other markets was acceptable with increased revenues in the Far East and Australasia offsetting a fall in the Middle East. Whilst our core Middle East business progressed satisfactorily, we did not enjoy the same level of new installation business as in 2011.

Whilst revenue growth in Hospitality did not match the levels achieved in 2011 we were pleased with the progress made against long term development targets.

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 2012: £9.9m (2011: £9.1m)

The 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. Inventory levels were also increased to reduce risk associated with the introduction of increased European import duties.

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 2012: £2.8m (2011: £2.7m)

Group operating profit increased by over 4%. Performance in our Hospitality division was affected by lower levels of sales growth and continued investment in new product development and sales and market infrastructure associated with our long term growth plans. Our improved performance in Retail reflected continued progress against our plan to reposition this division to more profitable market sectors. Central costs were well controlled. Operating margins increased satisfactorily to 6.8% (2011: 6.4%) reflecting an increased mix of higher margin sales in both Hospitality and Retail.

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

Profit before taxation 2012: £3.1m (2011: £2.7m)

Profit before taxation moved forward by 15% as operating profits were increased and the notional interest credit associated with our pension scheme increased. Our share of the profit of our associate company Furlong Mills grew.

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 2012: £3.4m (2011: £5.9m)

Percentage of operating cash generation to operating profit for the year 121% (2011: 218%).

Three year average percentage of operating cash generation to operating profit 134% (2011: 144%).

Operating cash generation was maintained at satisfactory levels given continued control of working capital. The increase in inventory holdings to support the extension of our product range was offset by further reductions in receivable balances and an improved rate of cash collections.

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 position we hold in a number of hospitality markets will mean that we will continue to be able to improve our overall business performance. We expect to benefit from an increased level of investment in new product development for hospitality products during 2013. Whilst the improved performance from the re-positioning of our Retail business will continue, we believe that the return from this business will be affected in the short term by the imposition of significantly increased levels of import duty on product sourced from China. This change is expected to make retail markets for tabletop ceramics less predictable, but in the long term should benefit UK based manufacturers such as ourselves. We have, where possible, taken action to mitigate the negative effects of this change on our business. The Group's 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 and product development strategies are well resourced and have generated a number of new opportunities for us.

We expect Retail markets to continue to exhibit little growth given economic constraints, but believe that we can continue to generate an acceptable return for shareholders. Our relatively small size and increased focus on profitable markets should continue to generate new opportunities. The imposition of higher levels of duty in Europe will inevitably lead to a less predictable trading environment in the short term.

We continue to approach all our markets with a view to long term, investment led, 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. We then build processes to manage appropriately and mitigate risks where possible. 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, distribution channels within each market and product requirements in these markets. The Group actively manages its market exposure and profitability, but risks losing revenue if we do not anticipate market trends.

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 and reliance on existing products.

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 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.

Ethical standards

The Group expect high ethical standards to be met in all areas of its operation and from all its employees and recognises the role of the Board in defining and meeting these standards. We have a published ethical policy.

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, constructive and rewarding 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 to develop vocational training courses for our employees. 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. 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.

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 have significantly reduced the amount of waste sent from the Group to landfill.

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. We run a number of events each year in support of charitable causes.

Where possible we source our materials and services locally. A strong support industry is important to the long term future of the Group.

We also take an active role in supporting both the local ceramic industry and wider initiative within the hospitality sector and support a number of training programmes.

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. We closed our small Australian branch operation during the year and now operate through a distributor in that market.

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.

During the year the Group generated £3.4m of operating cash flow and after payment of corporate taxation of £0.7m, invested £1.2m net in capital projects and returned £1.5m to shareholders by way of dividend.

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 BVI	2,484,500	22.7%
J A Roper	1,102,500	10.1%
S Baker	1,100,000	10.1%
E S & SJ Roper	672,265	6.2%
Investec Wealth and Investment	588,966	5.4%
M J & G Roper	535,380	4.9%
Henderson Global Investors Limited	440,000	4.0%

Share repurchase

During the year the Company repurchased nil (2011: 65,000) 10p ordinary shares at a total cost of £nil (2011: £176,000) in order to improve overall shareholder return. Nil (2011: 64,000) shares were re-issued in respect of employee share option schemes for a total consideration of £nil (2011: £122,000). The maximum number of shares held in treasury by the Company during the year was 33,000 10p ordinary shares. The Company retains a power, subject to the fulfilment of certain conditions and as approved at the 2012 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 2012 was 38 days (2011: 35 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 (2011: £nil) and £9,000 (2011: £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 2012 was £9,000 (2011: £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 Company financial statements respectively;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

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

Independent auditors

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

By order of the Board

D J S Taylor
Company Secretary
25 March 2013

Summary

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

Following a review of Executive Directors remuneration in 2011, the Remuneration Committee's aim during the year was to amend the balance between salary and performance related remuneration. The revised structure is intended to improve the incentive to Executive Directors to increase Group profitability and to more clearly align the interests of Directors and shareholders. We also introduced a new long term incentive plan to grant options to Senior Executives, with the specific aim of aligning executive reward with the creation of value for shareholders.

As a result there was no increase in base pay at the review date in the year. Challenging targets were set for the Executive Directors bonus scheme and as in 2011 this was based on operating profit as we believe this measure best supports the Board's aims in relation to the development of our business and the successful implementation of the growth strategies we have agreed. Options under the Long Term Incentive Plan were granted to two Executive Directors in the year and these will only vest in full if earnings per share growth over the three year assessment period is in excess of long term average profit growth.

Group performance was in line with our targets but did not demonstrate the levels of outperformance achieved in 2011. As a result bonus levels were reduced in comparison to last year. Operating profit increased by 4% and pre tax profit by 15%. We have maintained our strong cash position and balance sheet. Total shareholder return over the year was 17%.

Overall remuneration for the current members of the Board fell by 7% from £924,000 to £862,000 due to maintained levels of basic pay, reductions in the levels of bonuses and lower gains on the exercise of share options. Additionally the overall reward to Board members fell as the number of Executive Directors was reduced.

The Group is in the process of reviewing the effect of the Department of Business, Innovation and Skills report on Remuneration Reporting Requirements. A number of changes and additional disclosures have been made in the 2012 report to reflect the revised requirements and it is anticipated that further disclosures will be made in the 2013 Annual Report when the requirements come into effect.

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 Group'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 Group 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 has issued a policy statement which is endorsed by the Board. In determining its policy the Committee has given full consideration to the UK Corporate Governance Code. The two elements of this statement are:

- Total rewards to Executive Directors are intended to provide a comprehensive benefit package which attracts, motivates and retains 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 Group 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 part of Aon Hewitt Limited), a company specialising in the provision of remuneration advice to listed companies. New Bridge Street is a member of the Remuneration Consultants Group and adheres to its code of conduct.

The following table details the elements of remuneration that make up total remuneration and explains how these are linked to the Group's strategy and how they operate.

	Purpose and link to strategy	Operation
Base salary	Help recruit and retain employees	Reviewed annually and fixed for twelve months. Salary influenced by: Scale and scope of role, experience of employee and performance Average change in salary for the workforce as a whole Salaries are benchmarked against comparator companies
Benefits	Help recruit and retain employees	Directors are entitled to the reimbursement of costs associated with their role. Executive Directors are entitled to healthcare benefits.
Annual bonus	Rewards the achievement of annual financial and strategic business targets and delivery of personal objectives	Targets are set annually and relate to the areas of the business where the Director has particular control Bonus level is determined by the Remuneration Committee after the year end based on performance against targets
Long term incentive plan	Incentivises employees to achieve a higher level of return to shareholders over a longer period of time.	The Company operates an LTIP approved on 16 May 2012 Executive Directors are eligible for the grant of low cost options annually with vesting dependent on the achievement of performance conditions over a three year period.
Pension	Helps to recruit and retain employees over a sustained period	The Company operates a defined contribution pension scheme. Bonus and LTIP payments are not pensionable. The Company previously operated a defined benefit pension scheme which was closed for future accrual in 2006. All Executive Directors are deferred members of this scheme.

Implementation

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

Emoluments of the Directors were as follows:

	Salary £	Performance bonuses £	Benefits in kind £	Pensions (see below) £	Gains made on exercise of options £	**Aggregate emoluments £**
2012						
Executive						
A D Roper	200,000	46,000	829	–	–	**246,829**
D J S Taylor	184,000	29,992	965	18,400	–	**233,357**
D M O'Connor	195,000	31,785	818	19,500	–	**247,103**
Non Executive						
J N E Sparey	60,000	–	–	–	–	**60,000**
J W Morgan	37,500	–	–	–	–	**37,500**
A J McWalter	37,500	–	–	–	–	**37,500**
	714,000	107,777	2,612	37,900	–	**862,289**
2011						
Executive						
A D Roper	200,000	56,000	966	–	–	**256,966**
D J S Taylor	184,000	51,520	1,119	16,560	14,100	**267,299**
D M O'Connor	191,333	54,600	1,023	17,293	2,280	**266,529**
I T Hicks *	126,225	29,317	938	8,836	3,420	**168,736**
Non Executive						
J N E Sparey	59,333	–	–	–	–	**59,333**
J W Morgan	36,875	–	–	–	–	**36,875**
A J McWalter	36,875	–	–	–	–	**36,875**
	834,641	191,437	4,046	42,689	19,800	**1,092,613**

* 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.

No Director waived emoluments in respect of the years ended 31 December 2012 and 2011.

Pension costs above 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.

Long term incentive plan

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

On 16 May 2012 shareholders approved the establishment of a new long term incentive scheme for employees of the Company. Options granted under this scheme during the year are shown below:

	Date of grant	**Number of options 31 Dec 2012**	Number of options 31 Dec 2011	Exercise Price pence	Date from which exercisable	Expiry date
D J S Taylor						
Long Term Incentive Plan	21.06.12	**46,730**	–	10	Jun 2015	Jun 2022
D M O'Connor						
Long Term Incentive Plan	21.06.12	**49,524**	–	10	Jun 2015	Jun 2022

Exercise of the above options is subject to the achievement of performance conditions as specified by the Remuneration Committee and are subject to clawback provisions in certain circumstances. The above number of options represent the amount that will vest based on the achievement of maximum performance targets. A lower percentage of the above will vest given the achievement of lower than maximum performance. At target performance levels 40% of the above options would be expected to vest. Below threshold performance no options will vest.

96,254 options were granted on 21 June 2012. The market price of the Company's shares at the date of grant was 315p.

For the options granted on 21 June 2012, 100% of the shares will vest given an increase of 42% in adjusted (pre exceptional) EPS ('maximum performance') in the year to 31 December 2014 over the base year of 31 December 2011, 40% of the above shares for an increase of 35% in adjusted EPS ('target performance') and 25% of the above shares for an increase of 28% in adjusted EPS ('threshold performance'). Between those levels shares will vest on a pro rata basis.

The above awards were double the level of options that the Remuneration Committee would normally expect to grant. This higher award was given as no share option grants had been made by the Remuneration Committee since May 2008.

Executive and unapproved Executive share option schemes

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 Dec 2012**	Number of options 31 Dec 2011	Exercise Price pence	Date from which exercisable	Expiry date
D J S Taylor						
Unapproved Executive Scheme	30.04.04	**10,000**	10,000	208	Apr 2007	Apr 2014
D M O'Connor						
Unapproved Executive Scheme	30.04.04	**6,000**	6,000	208	Apr 2007	Apr 2014

No share options were granted to or exercised by Directors during the year under the Executive and unapproved Executive Schemes.

Share options are granted to Directors in accordance with the terms of reference of the Remuneration Committee (see page 24) to provide encouragement to enhance Group performance in the long term and having regard to each employees responsibilities, ability and contribution. The grant of options is made at market value at the date of grant at no cost to the employee.

The above options are only exercisable subject to the satisfaction of performance criteria in relation to sustained improvement in the financial performance of the Group. In the case of the above options the Remuneration Committee consider that a sustained improvement in the financial performance of the Group represents an increase in the adjusted 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.The Remuneration Committee does not presently expect further options to be granted under this scheme.

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 Dec 2012**	Number of phantom Shares 31 Dec 2011	Base value Pence	Cap value Pence	Date from which exercisable	Expiry date
D J S Taylor	19.12.07	**–**	15,000	300	550	Dec 2010	Dec 2012
	19.12.07	**–**	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	300	550	Dec 2010	Dec 2012
	19.12.07	**–**	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.

No Phantom Share Scheme options were granted or were exercised during the year. Phantom Share Scheme options granted on 19 December 2007 lapsed during the year.

Share price movements during the year

The market price of the Company's shares at the end of the financial year was 307.5p (2011: 274.5p). The range of prices for the year to 31 December 2012 was 263p to 347p (2011: 339p to 255p) 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 shown in the table on page 26 have been calculated at the market share price at the date of exercise of the options.

Pensions

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

The method of provision of pension benefits to Directors changed in 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	–	131,135	–
D J S Taylor	–	29,363	–
D M O'Connor	–	28,844	–
	–	189,342	–

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

	Increase in benefit over the year (incl inflation)	**Transfer value at 31 Dec 2012**	Transfer value at 31 Dec 2011	Change in transfer value less Directors' contributions
	£	**£**	£	£
A D Roper	5,259	**2,188,125**	2,324,752	(136,627)
D J S Taylor	650	**415,278**	449,035	(33,757)
D M O'Connor	639	**316,110**	344,160	(28,050)
	6,548	**2,919,513**	3,117,947	(198,434)

The disclosure above is in accordance with 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 2012 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.

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 is funded to allow retirement at 65 with a pension based on accrued service to 31 March 2006

D J S Taylor and D M O'Connor 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: A D Roper is not a member of the Churchill China 2006 Group Personal Pension Plan and does not receive ongoing pension benefits as part of his remuneration.

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 15 May 2012.

Non Executive Directors are appointed on fixed term contracts. J W Morgan signed a fixed term contracts of one years' duration on 22 March 2013. 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 2012 in the 10p ordinary shares of the Company were as follows:

	2012	2011
A D Roper	**662,430**	662,430
D J S Taylor	**18,500**	18,500
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	**5,000**	–
	765,129	760,129

A D Roper's interest in the 10p ordinary shares of the Company at 31 December 2012 represented 6.1% (2011: 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 2012 and 25 March 2013.

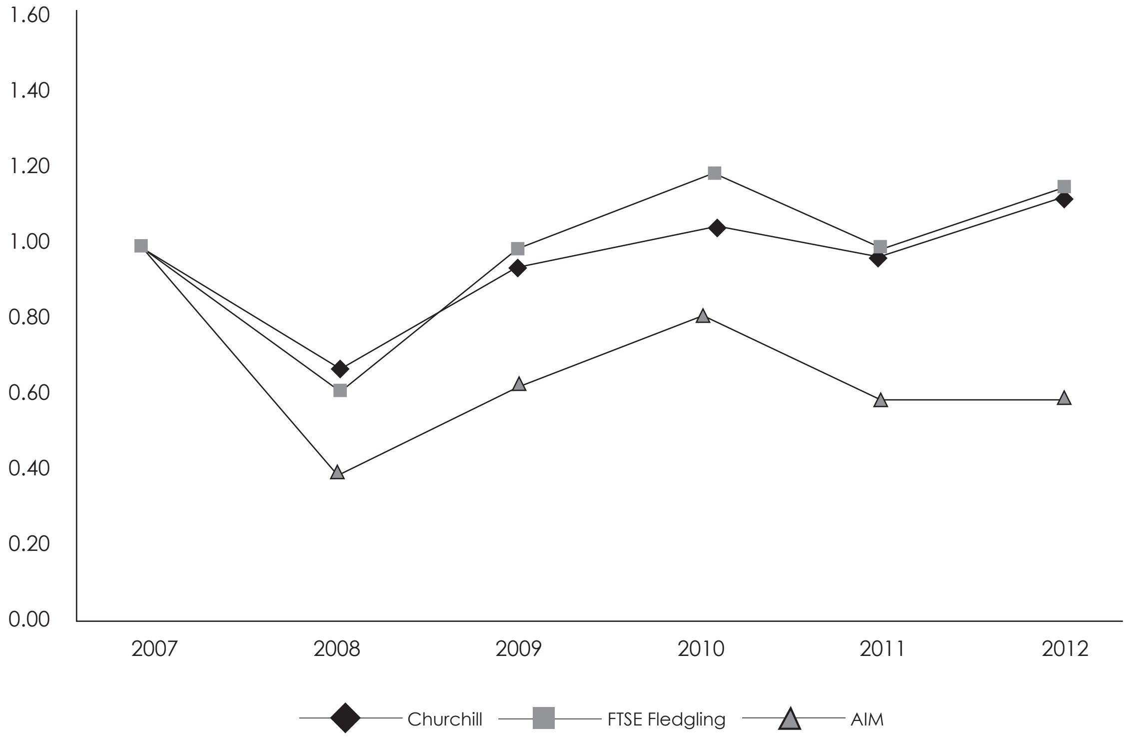
Shareholder consultation

Prior to the approval of the new Long Term Incentive Plan at the Annual General Meeting in May 2012 the Remuneration Committee consulted with major shareholders in relation to its operation and a detailed circular in respect of the Scheme was sent out to all shareholders with the Notice of Annual General Meeting. No significant comments were received.

Two resolutions relating to remuneration were included in the business of the 2012 Annual General Meeting. The standard resolution in relation to the approval of the Report of the Remuneration Committee contained in the Annual Report for 2011 was passed. 99.9% of votes were cast in favour of the resolution, 0.0% against, with 0.1% abstaining. The resolution in relation to the approval of the new Long Term Incentive Plan was also passed, with 99.9% of votes cast in favour of the resolution, 0.1% against and 0.0% abstentions.

Performance Graph

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



(Source: N+1 Singer)

Over a five year period the Group's total return to shareholders has been substantially above that generated by the AIM index and comparable to that achieved by the FTSE Fledgling index. Total returns from the Group in the year have been supported by the general rise in equity valuations, but have been enhanced 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 over 5% (AIM: -7%, FTSE Fledgling +6%). Over the five year period total shareholder return from the Group has been 29%, whilst that achieved by the AIM index as a whole was -29% and the FTSE Fledgling 35%. In the year to 31 December 2012 the overall return from the Group was 17%, the AIM index reported a 2% return and the FTSE Fledgling index rose by 16%.

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
25 March 2013

This statement is unaudited.

As a Company quoted on the Alternative Investment Market of the London Stock Exchange, the Company is not required to comply with the 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 twelve years. The Board does not consider that this is a material departure from the terms of the Code.

The Board is reviewing the recommendations of the Davies report on diversity in the Boardroom.

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

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

	Meetings held	Meetings attended
A D Roper	13	12
D J S Taylor	13	13
D M O'Connor	13	12
J N E Sparey	13	13
J W Morgan	13	12
A J McWalter	13	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 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 and legislative environment in which the Company operates. Potential new risk areas have been identified and control procedures documented.

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

Internal audit

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

Internal financial control

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

Going concern

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

By order of the Board

D J S Taylor
Company Secretary
25 March 2013

We have audited the Group and Company financial statements (the "financial statements") of Churchill China plc for the year ended 31 December 2012 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 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 Statement of Directors' Responsibilities set out on page [16], 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 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 Company's affairs as at 31 December 2012 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 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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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
25 March 2013

Consolidated Income Statement

for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Revenue	4	**41,435**	42,296
Operating profit	5	**2,830**	2,713
Share of results of associate company	15	**18**	(41)
Finance income	8	**279**	52
Finance costs	8	**(40)**	(30)
Profit before income tax		**3,087**	2,694
Income tax expense	10	**(660)**	(598)
Profit for the year attributable to owners of the Company		**2,427**	2,096
Basic earnings per ordinary share	11	**22.2p**	19.2p
Diluted earnings per share	11	**22.0p**	19.2p

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 Company profit and loss account. The profit of the Company for the year was £13,000 (2011: £1,244,000)

	2012 £'000	2011 £'000
Other comprehensive (expense)/income		
Actuarial (loss)/gain on defined benefit obligations (note 23)	**(2,094)**	573
Currency translation differences	**(11)**	(1)
Other comprehensive (expense)/income for the year	**(2,105)**	572
Profit for the year	**2,427**	2,096
Total comprehensive income for the year	**322**	2,668
Attributable to:		
Owners of the Company	**322**	2,668

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 2012

	Notes	2012 £'000	2011 £'000
Assets			
Non current assets			
Property, plant and equipment	13	**14,162**	14,402
Intangible assets	14	**73**	236
Investment in associate	15	**864**	846
Deferred income tax assets	22	**1,285**	858
		16,384	16,342
Current assets			
Inventories	18	**9,877**	9,127
Trade and other receivables	19	**7,333**	7,767
Other financial assets	20	**500**	–
Cash and cash equivalents		**6,497**	6,886
		24,207	23,780
Total assets		**40,591**	40,122
Liabilities			
Current liabilities			
Trade and other payables	21	**(7,132)**	(7,044)
Current income tax liabilities		**(648)**	(693)
		(7,780)	(7,737)
Non current liabilities			
Deferred income tax liabilities	22	**(1,296)**	(1,437)
Retirement benefit obligations	23	**(5,054)**	(3,295)
Total liabilities		**(14,130)**	(12,469)
Net assets		**26,461**	27,653
Equity attributable to owners of the Company			
Issued share capital	24	**1,096**	1,096
Share premium account	24	**2,348**	2,348
Treasury shares	25	**(89)**	(89)
Other reserves	26	**1,235**	1,216
Retained earnings	27	**21,871**	23,082
Total equity		**26,461**	27,653

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 25 March 2013 and were signed on its behalf by:

A D Roper
Director

D J S Taylor
Director

Company number 2709505

Company Balance Sheet

as at 31 December 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Investment in associate	15	**355**	355
Investments in subsidiaries	16	**2,195**	2,195
Deferred income tax assets	22	**4**	–
		2,554	2,550
Current assets			
Debtors: amounts falling due after more than one year	19	**5,470**	6,997
Debtors: amounts falling due within one year	19	**159**	265
Cash at bank and in hand		**304**	164
		5,933	7,426
Creditors: amounts falling due within one year	21	**(28)**	(16)
Net current assets		**5,905**	7,410
Total assets less current liabilities		**8,459**	9,960
Net assets		**8,459**	9,960
Capital and reserves			
Called up share capital	24	**1,096**	1,096
Share premium account	24	**2,348**	2,348
Treasury shares	25	**(89)**	(89)
Other reserves	26	**39**	24
Profit and loss account	27	**5,065**	6,581
Total shareholders' funds		**8,459**	9,960

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 25 March 2013 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 2012

	Retained earnings £'000	Share capital £'000	Share premium account £'000	Treasury shares £'000	Other reserves £'000	Total £'000
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 25)	(56)	–	–	2	–	(54)
Total transactions with owners	(1,586)	–	–	2	–	(1,584)
Balance at 1 January 2012	23,082	1,096	2,348	(89)	1,216	27,653
Comprehensive Income:						
Profit for the year	2,427	–	–	–	–	2,427
Other comprehensive income:						
Depreciation transfer – gross	12	–	–	–	(12)	–
Depreciation transfer – tax	(27)	–	–	–	27	–
Actuarial losses – net of tax	(2,094)	–	–	–	–	(2,094)
Currency translation	–	–	–	–	(11)	(11)
Total comprehensive income	318	–	–	–	4	322
Transactions with owners						
Dividends relating to 2011 and 2012 (note 12)	(1,529)	–	–	–	–	(1,529)
Share based payment	–	–	–	–	15	15
Total transactions with owners	(1,529)	–	–	–	15	(1,514)
Balance at 31 December 2012	**21,871**	**1,096**	**2,348**	**(89)**	**1,235**	**26,461**

Consolidated Cash Flow Statement

for the year ended 31 December 2012

	2012 £'000	2011 £'000
Cash flows from operating activities		
Cash generated from operations (see page 43)	**3,433**	5,922
Interest received*	**76**	52
Interest paid	**(40)**	(25)
Income tax paid	**(728)**	(557)
Net cash generated from operating activities	**2,741**	5,392
Cash flows investing activities		
Purchases of property, plant and equipment	**(1,182)**	(1,383)
Proceeds on disposal of property, plant and equipment	**88**	117
Purchases of intangible assets	**(6)**	(99)
Net cash used in investing activities	**(1,100)**	(1,365)
Cash flows from financing activities		
Issue of ordinary shares	**–**	122
Purchase of treasury shares	**–**	(176)
Dividends paid	**(1,529)**	(1,530)
Purchase of financial assets	**(500)**	–
Net cash used in financing activities	**(2,029)**	(1,584)
Net (decrease)/increase in cash and cash equivalents	**(388)**	2,443
Cash and cash equivalents at the beginning of the year	**6,886**	4,442
Exchange (losses)/gains on cash and cash equivalents	**(1)**	1
Cash and cash equivalents at the end of the year	**6,497**	6,886

* 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

	2012	2011
	£'000	£'000
Continuing operating activities		
Operating profit	**2,830**	2,713
Adjustments for:		
Depreciation and amortisation	**1,592**	1,959
Profit on disposal of property, plant and equipment	**(2)**	(42)
Charge for share based payments	**15**	–
Difference between pension service cost and contributions (see note 23)	**(672)**	(495)
Changes in working capital:		
Inventory	**(751)**	(930)
Trade and other receivables	**417**	2,199
Trade and other payables	**4**	518
Net cash inflow from operations	**3,433**	5,922

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 and the Company have adequate resources to continue in operational existence for the foreseeable future.

The Group and the Company therefore continue to adopt the going concern basis in preparing their consolidated financial statements.

Changes in accounting policy and disclosures

(a) 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 2012 that would be expected to have a material impact on the Group.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to Group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

IAS 19, 'Employee benefits', was amended in June 2011. The impact on the Group will be as follows: to immediately recognise all past service costs; and 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 (asset). Were the change in standard to have been applied from 1 January 2012 the Group's current year profit would have been reduced by £372,000. As this is a notional interest charge there would have been no impact on cash and cash equivalents.

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 replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. 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 determination is made at initial recognition.

1 Summary of significant accounting policies (continued)

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 standard provides additional guidance to assist in the determination of control where this is difficult to assess. 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 2014, 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, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2014, 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.

Basis of consolidation

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

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.

(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.

1 Summary of significant accounting policies (continued)

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.

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 the Income Statement 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.

1 Summary of significant accounting policies (continued)

Interest received/paid

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

Retirement benefit costs

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

The defined benefit scheme is valued every three years by a professionally qualified independent Actuary. In intervening years, the Actuary reviews the continuing appropriateness of the valuation. 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 quality 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.

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.

1 Summary of significant accounting policies (continued)

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

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

Property, plant and equipment

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

1 Summary of significant accounting policies (continued)

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 accumulated 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. Non financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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.

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 IAS 39.

Other financial assets

Other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non current assets.

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 IAS 39.

Non current assets held for sale

Non current assets are classified as being held for sale when their value is expected to be recovered through disposal rather than continuing usage within the business and when the future sale is considered to be highly probable. Management must be committed to sale which should be expected to be completed to qualify for recognition as a completed sale within 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 2012, 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 £17,000 (2011: £15,000) 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 £12,000 (2011: £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 £187,000 (2011: £132,000) 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 2012, 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 £4,000 (2011: £5,000) higher/lower. Other components of equity would have been unchanged.

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, other financial assets 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	**2012 £'000**	2011 £'000
Lloyds Banking Group plc	A	**5,031**	6,009
Royal Bank of Scotland plc	A	**753**	602
Santander UK plc	A	**500**	–
Other	Min A	**213**	275
		6,497	6,886

2 Financial risk management (continued)

Other financial assets are as follows:

	Credit rating	2012 £'000	2011 £'000
Lloyds Banking Group plc	A	**500**	–
		500	–

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 £348,000 (2011: £317,000).

(b) Pension benefits

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

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

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 23.

(c) Recognition of deferred tax assets

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

4 Segmental analysis

Management has determined the operating segments are based on the reports reviewed by the Chief Operating Decision Maker and the Strategic Steering Committee of the Board that are used to make strategic decisions. The Board considers the business primarily based on 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 2012			
	Hospitality £'000	**Retail £'000**	**Unallocated £'000**	**Group £'000**
Revenue from external customers	**29,407**	**12,028**	**–**	**41,435**
Contribution to Group overheads excluding depreciation and amortisation	**5,103**	**1,721**	**(2,402)**	**4,422**
Depreciation and amortisation	**(942)**	**(301)**	**(349)**	**(1,592)**
Operating profit	**4,161**	**1,420**	**(2,751)**	**2,830**
Share of results of associate company				**18**
Finance income				**279**
Finance cost				**(40)**
Profit before income tax				**3,087**

	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 and amortisation	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

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

There are no material inter-segment revenues (2011: £nil). Any inter segment revenues are carried out on an arm's 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 specific to operating segments. 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 2012 and capital expenditure for the year ended on that date are as follows:

	Hospitality £'000	Retail £'000	Unallocated £'000	Group £'000
Assets excluding inventories	14,594	4,876	10,380	29,850
Inventories	7,384	2,493	–	9,877
Investment in associates	–	–	864	864
Total assets	21,978	7,369	11,244	40,591
Total liabilities	4,040	965	9,125	14,130
Capital expenditure	949	65	261	1,275

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

	Hospitality £'000	Retail £'000	Unallocated £'000	Group £'000
Assets excluding inventories	14,553	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

Any sales between segments are carried out on an arm's 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.

	2012 £'000	2011 £'000
Geographical segment – Revenue		
United Kingdom	**25,872**	26,757
Rest of Europe	**7,485**	7,951
North America	**3,282**	3,039
Rest of the World	**4,796**	4,549
	41,435	42,296

The total assets of the business are allocated as follows:

United Kingdom £39,827,000 (2011: £39,220,000), Rest of Europe £87,000 (2011: £80,000), North America £610,000 (2011: £710,000), Rest of the World £67,000 (2011: £112,000).

Capital expenditure was made as follows:

United Kingdom £1,230,000 (2011: £1,225,000), Rest of Europe £45,000 (2011: £49,000).

5 Expenses by nature

	2012 £'000	2011 £'000
Changes in inventories of finished goods and work in progress	**(745)**	(956)
Raw materials used	**2,876**	2,808
Purchase of goods for resale	**8,598**	9,139
Employee benefit expense (note 7)	**14,991**	15,128
Other external charges	**11,287**	11,553
Depreciation and amortisation charges	**1,592**	1,959
Profit on disposal of property, plant and equipment	**(2)**	(42)
Foreign exchange losses/(gains)	**8**	(6)
Total cost of sales, distribution costs and administrative expenses	**38,605**	39,583

6 Average number of people employed

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

	2012 Number	2011 Number
By activity		
Production and warehousing	**330**	349
Sales and administration	**190**	191
	520	540

The Company had no employees (2011: none).

7 Employee benefit expense

	2012 £'000	2011 £'000
Staff costs (for the employees shown in note 6)		
Wages and salaries	**13,191**	13,412
Social security costs	**1,166**	1,139
Defined contribution pension cost (see note 23)	**435**	421
Other pension costs (see note 23)	**184**	156
Share options granted to Directors and employees (see note 24)	**15**	–
	14,991	15,128

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 Report of the Remuneration Committee. 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 (2011: nil).

8 Finance income and costs

	2012 £'000	2011 £'000
Interest on pension scheme (note 23)	**203**	–
Interest income on cash and cash equivalents	**76**	52
Finance income	**279**	52
Interest on pension scheme (note 23)	**–**	(5)
Other interest	**(40)**	(25)
Finance costs	**(40)**	(30)
Net finance income	**239**	22

9 Auditors' remuneration

During the year the Group obtained the following services from the Company's auditor:

	2012 £'000	2011 £'000
Fees payable to the Company's auditor for the audit of the Company and consolidated financial statements (Company £2,000, 2011: £2,000)	**7**	7
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries	**70**	67
Taxation advisory services	**–**	13
Other services	**4**	7
Total fees payable to the Group's auditors	**81**	94

10 Income tax expense

Group	2012 £'000	2011 £'000
Current tax – current year	**706**	773
– adjustment in respect of prior periods	**(18)**	(30)
	688	743
Deferred tax (note 22)		
Reversal of temporary differences	**(28)**	(145)
Income tax expense	**660**	598

During the year the main rate of corporation tax was reduced from 26% to 24%. This change was substantively enacted on 26 March 2012 and effective from 1 April 2012.

The Finance Bill 2012 was substantively enacted on 3 July 2012 and includes legislation to reduce the main rate of Corporation Tax from 24% to 23% from 1 April 2013. Deferred tax balances have been re-measured accordingly.

In addition to the changes in rates of Corporation Tax disclosed, further changes to the UK Corporation Tax system were announced in the March 2013 Budget. This includes a further reduction to the main rate to reduce the rate to 20% from 1 April 2015. This change had not been substantively enacted at the balance sheet date and, therefore, is not recognised in these financial statements. The impact of the future proposed reduction 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:

	2012 **£'000**	2011 £'000
Profit before income tax	**3,087**	2,694
Tax calculated at domestic tax rates applicable to profits in the respective countries	**757**	714
Expenses not deductible for tax purposes	**13**	10
Adjustment in respect of prior periods	**(18)**	(30)
Change in tax rate	**(108)**	(110)
Other	**16**	14
Tax charge	**660**	598

The weighted average applicable tax rate was 24.5% (2011: 26.5%).

During the year a credit of £540,000 (2011: charge of £312,000) 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 (2011: £27,000) 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 10,924,976 (2011: 10,921,563) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

	2012 **Pence per share**	2011 Pence per share
Basic earnings per share (Based on earnings £2,427,000 (2011: £2,096,000))	**22.2**	19.2

Diluted earnings per ordinary share is based on the profit after income tax and on 11,030,731 (2011: 10,931,463) ordinary shares, being the weighted average number of ordinary shares in issue during the year of 10,924,976 (2011: 10,921,563) increased by 105,755 (2011: 9,900) 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.

	2012 **Pence per share**	2011 Pence per share
Diluted basic earnings per share (Based on earnings £2,427,000 (2011: £2,096,000))	**22.0**	19.2

12 Dividends

The dividends paid in the year were as follows:

Ordinary	**2012 £'000**	2011 £'000
Final dividend 2011 9.2 p (Final dividend 2010: 9.2p) per 10p ordinary share	**1,005**	1,005
Interim 2012 4.8 p per 10p ordinary share paid (Interim 2011: 4.8p)	**524**	525
	1,529	1,530

The Directors now recommend payment of the following dividend:

Ordinary dividend:

Final dividend 2012 9.4p (2011: 9.2p) per 10p ordinary share	**1,027**	1,005

Dividends on treasury shares held by the Company are waived.

13 Property, plant and equipment

The Company has no property, plant and equipment (2011: 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 2011					
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
Year ended 31 December 2012					
Opening net book amount	10,049	3,469	492	392	14,402
Additions	473	495	257	45	1,270
Disposals	–	–	(86)	–	(86)
Depreciation charge	(188)	(864)	(149)	(223)	(1,424)
Closing net book amount	**10,334**	**3,100**	**514**	**214**	**14,162**
At 31 December 2012					
Cost	12,445	17,997	861	2,656	33,959
Accumulated depreciation	(2,111)	(14,897)	(347)	(2,442)	(19,797)
Net book amount	**10,334**	**3,100**	**514**	**214**	**14,162**

14 Intangible assets

The Company has no intangible fixed assets (2011: none). Details of these relating to the Group are as follows:

Group	**Computer software £'000**
At 1 January 2011	
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
Year ended 31 December 2012	
Opening net book amount	236
Additions	5
Disposals	–
Amortisation charge	(168)
Closing net book amount	**73**
At 31 December 2012	
Cost	901
Accumulated amortisation	(828)
Net book amount	**73**

15 Investment in associate

	Group 2012 £'000	Group 2011 £'000	**Company 2012 £'000**	Company 2011 £'000
Cost				
At 1 January	**1,152**	1,072	**355**	355
Share of profit	**125**	80	**–**	–
At 31 December	**1,277**	1,152	**355**	355
Impairment				
At 1 January	**306**	185	**–**	–
Impairment of investment in associate	**107**	121	**–**	–
At 31 December	**413**	306	**–**	–
Net book value				
Closing net book amount	**864**	846	**355**	355

15 Investment in associate (continued)

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.

	2012	2011
	£'000	£'000
Share of associate's assets	**1,668**	1,465
Share of associate's liabilities	**(340)**	(263)
Share of associate's net assets	**1,328**	1,202

The total revenue of Furlong Mills Limited for its year ended 31 December 2012 was £6,679,000 (2011: £6,476,000) and profit before tax was £445,000 (2011: £365,000). During the year the Group purchased raw materials to a value of £1,907,000 (2011: £1,934,000) 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. Expected cash flows from the investment have been discounted at a rate of 5.6% (2011: 6.2%).

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

	2012	2011
	£'000	£'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

16 Investment in subsidiaries (continued)

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 (Whieldon Road) Limited	England and Wales	Ordinary	100%	Provision of management and property services within the Group
Churchill China, Inc	USA	Ordinary	100%	Sale of ceramic and related products

Dormant companies within the Group are not included in the above analysis. The Directors believe the carrying value of subsidiaries is supported by their underlying net asset values.

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 2012	–	43
Impairment		
At 1 January and 31 December 2012	–	43
Fair value/Net book value		
At 1 January and 31 December 2012	–	–

The above represents 35.9% (2011: 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 (2011: none). Details of inventory relating to the Group are as follows:

	2012 £'000	2011 £'000
Raw materials	**52**	46
Work in progress	**498**	473
Finished goods	**9,327**	8,608
	9,877	9,127

The Directors do not consider there is a material difference between the carrying value and replacement cost of inventories. The potential impact of changes in the net realisable value of inventories is shown in note 3.

The cost of inventories recognised as an expense and included in the income statements amounted to £23,511,000 (2011: £23,718,000).

19 Trade and other receivables

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Trade receivables	**7,480**	7,456	**–**	–
Less: provision for impairment of trade receivables	**(427)**	(304)	**–**	–
Trade receivables – net	**7,053**	7,152	**–**	–
Other	**7**	198	**–**	110
Prepayments	**273**	411	**–**	–
Current income tax assets	**–**	6	**–**	–
Receivables from related parties (note 29)	**–**	–	**5,629**	7,152
	7,333	7,767	**5,629**	7,262
Less non-current portion: loans to related parties	**–**	–	**5,470**	6,997
Current portion	**7,333**	7,767	**159**	265

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 2012, trade receivables of £6,521,000 (2011: £6,609,000) were fully performing.

19 Trade and other receivables (continued)

As of 31 December 2012, trade receivables of £463,000 (2011: £467,000) were past due but not impaired. The ageing of these receivables is as follows:

	2012 £'000	2011 £'000
Up to 3 months	**436**	444
3 to 6 months	**21**	23
Over 6 months	**6**	–
	463	467

As of 31 December 2012 trade receivables with a gross value of £496,000 (2011: £380,000) were impaired and provided for. The amount of provision for 31 December 2012 was £427,000 (2011: £304,000). 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:

	2012 £'000	2011 £'000
Up to 3 months	**388**	277
3 to 6 months	**16**	30
Over 6 months	**92**	73
	496	380

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:

	2012 £'000	2011 £'000
At 1 January	**304**	234
Provision for receivables impairment	**165**	93
Written off during the year	**(42)**	(23)
At 31 December	**427**	304

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 £nil (2011: £202,000) have been reviewed and an impairment provision of £nil (2011: £60,000) 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:

	2012 £'000	2011 £'000
Pounds	**5,790**	6,182
Euros	**841**	800
US dollar	**656**	785
Other	**46**	–
	7,333	7,767

19 Trade and other receivables (continued)

During the year the Group realised losses of £8,000 (2011: £6,000) 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 £1,191,000 (2011: £2,248,000) and the sale of US dollars of £245,000 (2011: £319,000). These contracts are held at their fair value with a loss of £26,000 (2011: gain of £73,000) recognised in relation to the contracts outstanding at the year end.

Company

As of 31 December 2012, Company receivables of £nil (2011: £7,152,000) were fully performing. Amounts receivable are repayable in accordance with agreed terms. No interest is chargeable.

Other receivables of £nil (2011: £138,000) gross were impaired and provided for. The amount of this provision at 31 December 2012 was £nil (2011: £28,000). Interest is chargeable on these receivables.

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

	2012	2011
	£'000	£'000
Pounds	**5,579**	7,216
US dollar	**50**	46
	5,629	7,262

20 Other financial assets

	Group		Company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Other receivables	**500**	–	**–**	–
	500	–	**–**	–

Other receivables represent term deposits made with banks not classed as cash and cash equivalents with maturities of less than one year as at the balance sheet date. The deposits are not impaired.

21 Trade and other payables

	Group		Company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Trade payables	**1,801**	1,505	**–**	–
Amounts due to related parties	**107**	84	**13**	13
Corporation tax	**–**	–	**6**	–
Social security and other taxes	**1,069**	1,121	**8**	2
Accrued expenses	**4,155**	4,334	**1**	1
	7,132	7,044	**28**	16

All the above liabilities mature within twelve months from 31 December 2012.

22 Deferred income tax

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

Group	2012 £'000	2011 £'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**1,114**	678
– Deferred tax asset to be recovered within 12 months	**171**	180
	1,285	858
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	**(1,250)**	(1,387)
– Deferred tax liabilities to be recovered within 12 months	**(46)**	(50)
	(1,296)	(1,437)
Deferred tax liability (net)	**(11)**	(579)

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

	2012 £'000	2011 £'000
At 1 January	**(579)**	(412)
Income statement credit (note 10)	**28**	145
Tax credited/(charged) directly to equity (note 27)	**540**	(312)
At 31 December	**(11)**	(579)

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 2011	1,347	331	1,678
Credited to the income statement	(214)	(27)	(241)
At 31 December 2011	1,133	304	1,437
Credited to the income statement	(114)	(27)	(141)
At 31 December 2012	**1,019**	**277**	**1,296**

Deferred tax assets	Accelerated tax depreciation £'000	Retirement benefit obligation £'000	Other £'000	Total £'000
At 1 January 2011	–	(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)
(Credited)/charged to the income statement	(89)	202	–	113
Credited directly to equity	–	(540)	–	(540)
At 31 December 2012	**(107)**	**(1,162)**	**(16)**	**(1,285)**

22 Deferred income tax (continued)

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

	2012	2011
	£'000	£'000
Fair value reserves in shareholders' equity:		
Tax on actuarial (loss)/gain on retirement benefits scheme	**(540)**	312

Deferred income tax of £27,000 (2011: £27,000) was transferred from other reserves (note 26) to retained earnings (note 27). This represents deferred tax on the difference between the actual depreciation on buildings and the equivalent depreciation based on the historical cost of buildings.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has not recognised deferred income tax assets of £1,295,000 (2011: £1,349,000) in respect of capital losses amounting to £5,395,000 (2011: £5,395,000) that can be carried forward against future capital gains.

23 Retirement benefit obligations

	2012	2011
	£'000	£'000
Balance sheet obligations		
Pension benefits	**5,054**	3,295
Income statement charge/(credit)		
Pension benefits	**619**	577
Finance (income)/cost	**(203)**	5

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 £619,000 (2011: £577,000). Of this cost £nil (2011: £nil), related to the Churchill Group Retirement Benefit Scheme, £179,000 (2011: £171,000) was in respect of the Churchill China 1999 Pension Scheme and £256,000 (2011: £250,000) 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 £75,000 (2011: £59,000).

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 £672,000 (2011: £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 in respect of the amortisation of past service deficits.

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

	2012	2011
	£'000	£'000
Present value of funded obligations	**37,330**	33,058
Fair value of plan assets	**(32,276)**	(29,763)
Liability in balance sheet	**5,054**	3,295

23 Retirement benefit obligations (continued)

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

	2012 £'000	2011 £'000
At 1 January	**33,058**	34,898
Interest cost	**1,620**	1,954
Actuarial losses/(gains)	**3,587**	(2,959)
Benefits paid	**(935)**	(835)
At 31 December	**37,330**	33,058

Actuarial gains in 2011 include £2,170,000 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:

	2012 £'000	2011 £'000
At 1 January	**29,763**	30,228
Expected return on plan assets	**1,823**	1,949
Actuarial gains/(losses)	**953**	(2,074)
Employer contributions	**672**	495
Benefits paid	**(935)**	(835)
At 31 December	**32,276**	29,763

Plan assets are comprised as follows:

	2012 £'000		2011 £'000	
Equity and return investments	**22,088**	**68%**	20,078	67%
Debt investments	**9,373**	**29%**	8,617	29%
Other	**815**	**3%**	1,068	4%
	32,276		29,763	

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

The amounts recognised in the income statement are as follows:

	2012 £'000	2011 £'000
Interest cost	**(1,620)**	(1,954)
Expected return on plan assets	**1,823**	1,949
Net income/(cost) recognised in finance cost	**203**	(5)

The actual return on plan assets was a gain of £2,776,000 (2011: loss of £125,000).

23 Retirement benefit obligations (continued)

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
At 31 December					
Present value of funded obligations	**37,330**	33,058	34,898	34,550	25,275
Fair value of plan assets	**(32,276)**	(29,763)	(30,228)	(26,841)	(23,220)
Liability in balance sheet	**5,054**	3,295	4,670	7,709	2,055
Experience adjustments on scheme assets:					
Amount	**953**	(2,074)	1,813	2,689	(6,463)
Experience adjustments on scheme liabilities:					
Amount	**(590)**	403	835	(414)	372

Actuarial gains and losses

Actuarial losses of £2,634,000 (2011: gains £885,000) gross of tax 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 £11,329,000 (2011: £8,695,000).

The principal actuarial assumptions used were as follows:

Pension benefits

	2012 % per annum	2011 % per annum
Discount rate	**4.5%**	4.9%
Inflation rate – RPI	**3.0%**	3.1%
– CPI	**2.3%**	2.1%
Expected return on plan assets	**6.2%**	6.1%
Rate of increase of pensions in payment	**2.2%**	2.0%
Rate of increase of deferred pensions	**2.3%**	2.1%

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

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

	2012 Number	2011 Number
Male	**20.4**	20.3
Female	**23.1**	23.0

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

	2012 Number	2011 Number
Male	**22.7**	22.5
Female	**25.3**	25.2

23 Retirement benefit obligations (continued)

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 4.75% would be to reduce scheme liabilities by £1,687,000 (4.5%).

The effect of a 0.25% decrease in the discount rate to 4.25% would be to increase scheme liabilities by £1,794,000 (4.8%).

The effect of a 0.25% increase in RPI inflation to 3.25% and CPI inflation to 2.55% would increase scheme liabilities by £1,207,000 (3.2%).

The effect of a 0.25% decrease in RPI inflation to 2.75% and CPI inflation to 2.05% would decrease scheme liabilities by £1,139,000 (3.1%).

The effect of a 1 year increase to life expectancy would increase scheme liabilities by £962,000 (2.6%). The effect of a 1 year reduction in life expectancy would be to reduce scheme liabilities by £979,000 (2.6%).

24 Issued share capital and premium

Group and Company	Number of shares 000s	Ordinary shares £'000	Share premium £'000
At 31 December 2010 and 31 December 2011 and 31 December 2012	10,958	1,096	2,348

The total authorised number of ordinary shares is 14,300,000 (2011: 14,300,000) with a par value of 10p (2011: 10p) per share. All issued shares are fully paid.

Share option schemes

The Executive share option scheme was introduced in October 1994 and a complementary unapproved Executive share option scheme was approved by shareholders in October 1996. Options under these schemes are granted with a fixed exercise price equal to the market price of the shares at the date of issue. Options are normally only exercisable after 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. Options have been valued using the Black-Scholes option pricing model. No market based performance conditions were used in the fair value calculations.

The Long Term Incentive Plan was introduced in May 2012. Options under this scheme are granted with a fixed exercise price at a discount to the market price of the share at the date of issue. Options vest after three years from the date of grant and expire ten years from the date of grant. Options granted will be exercisable on a pro rata basis based on performance against threshold, target and maximum performance levels. Performance targets are set at the date of each grant by the Remuneration Committee. Payment of the exercise price of options is received in cash. A charge to the Income Statement has been made to reflect the fair value of options granted. Options have been valued using the Black–Scholes option pricing model. No market based performance conditions were used in the fair value calculations.

24 Issued share capital and premium (continued)

The fair value per option granted and the assumptions used in the calculation were as follows:

Grant date	**Long term incentive plan 21 June 2012**	**Executive share option scheme 30 April 2004**
Share price at grant date	315p	208p
Exercise price	10p	208p
Number of employees	2	12
Shares under option	96,254	110,000
Vesting period (years)	3	3
Expected volatility	20%	25%
Option life (years)	10	10
Expected life (years)	3	5
Risk free rate	1.6%	4.8%
Expected dividends expressed as a dividend yield	4.9%	5.2%
Fair value per option	236p	24p

The following options exercisable over ordinary shares were outstanding at 31 December 2012:

Number of shares	**2012**	2011	**Exercise price**	**Date from which exercisable**	**Expiry date**
The unapproved Executive share option scheme	**36,000**	36,000	208p	April 2007	April 2014
The Long Term Incentive Plan	**96,254**	–	10p	June 2015	June 2022

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 2012 is set out below.

	2012 Number '000	**2012 Weighted average exercise price**	2011 Number '000	2011 Weighted average exercise price
Outstanding at 1 January	**36,000**	**208.0p**	100,000	196.9p
Granted	**96,254**	**10.0p**	–	–
Exercised	**–**	**–**	(64,000)	190.7p
Outstanding at 31 December	**132,254**	**63.9p**	36,000	208.0p
Exercisable at 31 December	**36,000**	**208.0p**	36,000	208.0p

There were 96,254 share options granted during the year (2011: nil).

24 Issued share capital and premium (continued)

	2012 Weighted average exercise price	2012 Number '000	2012 Weighted average remaining life (expected)	2012 Weighted average remaining life (con-tractual)	2011 Weighted average exercise price	2011 Number '000	2011 Weighted average remaining life (expected)	2011 Weighted average remaining life (con-tractual)
0–50p	**10p**	**96,254**	**2.5**	**9.5**	–	–	–	–
200p–250p	**208p**	**36,000**	**0.0**	**1.3**	208p	36,000	0.0	2.3

The weighted average share price for options exercised in the period was nil p (2011: 190.7p). The total charge during the year for employee share based payment plans was £15,000 (2011: £nil) before tax, all of which related to equity settled share based payment transactions.

25 Treasury shares

	Group and Company £'000
As at 1 January 2012 and 31 December 2012	**89**

During the year the Group re-purchased nil (2011: 65,000) 10p ordinary shares and re-issued nil (2011: 64,000) of these under employee share option schemes. The Group currently holds 33,000 (2011: 33,000) shares in Treasury.

26 Other reserves

Group

	Land and buildings revaluation £'000	Currency translation £'000	Share based payment £'000	Other reserves £'000	Total £'000
Balance at 1 January 2011	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
Depreciation transfer – gross	(12)	–	–	–	(12)
Depreciation transfer – tax	27	–	–	–	27
Share based payment	–	–	15	–	15
Currency translation	–	(11)	–		(11)
Balance at 31 December 2012	**926**	**17**	**39**	**253**	**1,235**

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 retained earnings 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 £39,000 (2011: £24,000) represent provision for share based payment as shown in the above table.

27 Retained earnings

	Group £'000	Company £'000
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 25)	(56)	(56)
At 31 December 2011	23,082	6,581
At 1 January 2012	23,082	6,581
Profit for the year	2,427	13
Dividends paid in 2012	(1,529)	(1,529)
Depreciation transfer on land and buildings net of tax	(15)	–
Actuarial losses net of tax	(2,094)	–
At 31 December 2012	**21,871**	**5,065**

28 Commitments

Capital commitments

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

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Property, plant and equipment	**666**	845	**–**	–
Intangible assets: Computer software	**45**	39	**–**	–
	711	884	**–**	–

Operating lease commitments

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

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Payments under operating leases charged against income during the year	**37**	34	**–**	–
Future aggregate minimum commitments under non-cancellable operating leases:				
No later than one year	**47**	35	**–**	–
Later than one year and no later than five years	**214**	22	**–**	–

29 Related party transactions

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

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

Company

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

	2012	2011
	£'000	£'000
Subsidiaries		
Management charge to Churchill China, Inc	**6**	6
Interest received from Churchill China (UK) Limited	**4**	5
Dividend received from Churchill China (UK) Limited	**–**	1,250
(Loans repaid by)/new loans made to Churchill China (UK) Limited	**(1,527)**	136
Loans outstanding as at the year end (mainly Churchill China (UK) Limited	**5,629**	7,152

30 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 2012 and 2011, as disclosed in note 17.

Five Year Financial Record

	2008	2009	2010	2011	**2012**
	£'000	£'000	£'000	£'000	**£'000**
Turnover	41,969	41,705	43,746	42,296	**41,435**
Operating profit before exceptional items	2,804	2,288	2,287	2,713	**2,830**
Share of results of associate net of impairment	(71)	(18)	162	(41)	**18**
Finance income/(cost)	629	(201)	(135)	22	**239**
Profit before taxation	3,362	2,069	2,314	2,694	**3,087**
Income tax expense	(938)	(513)	(583)	(598)	**(660)**
Income tax expense – exceptional	(919)	–	–	–	**–**
Profit after taxation	1,505	1,556	1,731	2,096	**2,427**
Dividends	1,531	1,526	1,529	1,530	**1,529**
Net assets employed	28,612	24,536	26,569	27,653	**26,461**
Ratios					
Operating margin before exceptional items	6.7%	5.5%	5.2%	6.4%	**6.8%**
Earnings before interest, tax, depreciation and amortisation (£000)	3,874	3,684	3,817	4,672	**4,422**
Basic earnings per share (p)	13.8	14.3	15.8	19.2	**22.2**
Adjusted basic earnings per share (p)	22.2	14.3	15.8	19.2	**22.2**

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.

Notice is hereby given that the Annual General Meeting of Churchill China plc will be held at Marlborough Pottery, High Street, Sandyford, Tunstall, Stoke-on-Trent on Wednesday 22 May 2013 at 12 noon for the following purposes:

Ordinary Business

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

1. That the reports of the Directors and the Auditors and the Financial Statements for the year ended 31 December 2012 be received.

2. That a final dividend of 9.4p on each ordinary share be declared in respect of the year ended 31 December 2012.

3. That Mr A D Roper be re-elected as a Director.

4. That Mr J W Morgan be re-elected as a Director.

5. That the Auditors, PricewaterhouseCoopers LLP, be re-appointed and that the Directors be authorised to fix their remuneration for the year ending 31 December 2013.

6. That the Directors' Remuneration Report for the year ended 31 December 2012 be approved.

Special Business

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

7. That:

(a) the Directors be and they are hereby empowered under Section 570 of the Act to allot equity securities (as defined in Section 560 of the Act) for cash under the authority conferred by a resolution dated 16 May 2012 as if Section 561 of the Act did not apply to such allotment, provided that this power shall be limited to:

(i) the allotment of equity securities in connection with an offer of, or invitation to apply for, equity securities to:

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

(b) holders of other equity securities, if this is required by the rights of those securities, or, as the Directors otherwise consider necessary,

and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any treasury shares, fractional entitlements,record dates, legal, regulatory or practical problems in, or laws of any territory or any matter; and

(ii) the allotment of equity securities (otherwise than as mentioned in sub-paragraph (a) of this resolution and/or in the case of any sale of treasury shares for cash), up to an aggregate nominal amount of £109,579.

Unless previously renewed, varied or revoked, this power shall expire at the conclusion of the next Annual General Meeting or 21 August 2014, whichever is the earlier, but during this period the Company may make an offer or agreement which would or might require equity securities to be allotted after this authority expires and the Directors may allot equity securities in pursuance of that offer or agreement notwithstanding that the authority has expired.

8. That the Directors be authorised generally and unconditionally for the purposes of Sections 693 and 701 of the Act to make market purchases (within the meaning of Section 693(4) of the Act) of ordinary shares of 10p each in the capital of the Company ("Ordinary Shares") on such terms and in such manner as the Directors of the Company may from time to time determine, provided that:

   (i) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 1,092,497;

   (ii) the minimum price which may be paid for an Ordinary Share, exclusive of all expenses, shall be 10p;

   (iii) the maximum price which may be paid for an Ordinary Share, exclusive of all expenses, cannot be more than an amount equal to the higher of:

      (a) 5 per cent above the average of the middle market quotations for an Ordinary Share as derived from the Alternative Investment Market section of the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which such Ordinary Share is purchased; and

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

   Unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting and the Company may prior to the expiry of the authority hereby conferred make a contract or contracts to purchase Ordinary Shares under such authority which will or may be executed wholly or partly after the expiry of such authority.

9. That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

By Order of the Board

D J S Taylor
Company Secretary

Dated 16 April 2013

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

Registered Number 2709505

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

NOTES

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

2. To be valid, any form of proxy or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the offices of the Company's registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, no later than 12 noon on 20 May 2013. If you return more than one proxy appointment, that received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully.

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

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

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

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

7. To be entitled to attend and vote at the AGM (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company at 12 noon on 20 May 2013 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting). Changes to the Register after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting. There are no other procedures or requirements for entitled shareholders to comply with in order to attend and vote at the AGM. Voting at the meeting will be conducted by way of a show of hands, unless a poll is correctly called for.

8. As at 16 April 2013 (being the last practicable date prior to publication of this Notice), the Company's total issued equity share capital consists of 10,924,976 ordinary shares, carrying one vote each.

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

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

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

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

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

EXPLANATORY NOTES on the RESOLUTIONS

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

1. Resolutions 3 and 4: in accordance with the Company's Articles of Association at every AGM the number of Directors nearest to, but not exceeding one-third must retire by rotation. Mr A D Roper and Mr J W Morgan are retiring by rotation and resolutions 3 and 4 respectively seek approval for his re-election as a Director.

   Biographical details for the Directors are set out on in the Directors' Report.

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

2. Resolution 7: under Section 570 of the Act, when new shares are allotted or treasury shares are sold for cash, they must first be offered to existing shareholders pro rata to their holdings. This special resolution empowers the Directors to: (a) allot shares of the Company in connection with a rights issue, scrip dividend or other similar issue; and (b) otherwise allot shares of the Company, or sell treasury shares for cash, up to an aggregate nominal value of £109,579 (representing, in accordance with institutional investor guidelines, approximately 10% of the total issued equity share capital as at 16 April 2013)) (being the last practicable date prior to the publication of this Notice)) as if the pre-emption rights of Section 570 did not apply.

   Except in relation to the Company's employee share schemes, the Directors have no immediate plans to make use of this power. In line with best practice, the Company confirms that it has issued 1% of its issued share capital (excluding treasury shares) on a non-pro rata basis over the last 3 years, and it confirms its intention to adhere to the provisions in the Pre-Emption Group Statement of Principles regarding cumulative usage of authorities of no more than 7.5 per cent of the issued ordinary share capital (excluding treasury shares) within a rolling 3 year period.

   This power shall cease to have effect at the conclusion of the next AGM or on 21 August 2014, whichever is the earlier.

3. Resolution 8 renews the Directors' current authority to make limited market purchases of the Company's ordinary shares. The power is limited to a maximum aggregate number of 1,092,497 ordinary shares (representing approximately 10 per cent of the issued share capital excluding treasury shares as at 16 April 2013 (being the last practicable date prior to publication of this Notice)) and details the minimum and maximum prices that can be paid, exclusive of expenses. Any purchases of ordinary shares would be made by means of market purchase through the London Stock Exchange.

   The Directors undertake that the authority conferred by this resolution, if approved, will only be used if to do so would result in an increase in earnings per share and be in the best interests of shareholders generally.

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

   The authority conferred by this resolution will expire at the conclusion of the next AGM.

4. Resolution 9 is required under the Shareholders' Rights Regulations in order to preserve the ability of the Company to call general meetings on 14 days' notice, with shareholders' approval. The approval will be effective until the Company's next Annual General Meeting when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Regulations before it can call a general meeting on 14 days' notice.

CHURCHILL

China plc

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