CHURCHILL

China plc

Annual Report
2013

Over 200 years of...
INNOVATION, PASSION & EXPERTISE

Within the hospitality sector, the choice of tableware must meet the highest standards for presentation, practicality and performance. Over 200 years of innovation, passion and expertise make Churchill the natural partner for providing tabletop solutions.

The Churchill brand has achieved global recognition and is a reputable supplier of the highest quality ceramics. Respected for service excellence, product quality, environmental responsibilities and product innovation...

Company Profile

Churchill China plc is a manufacturer and distributor of high performance tabletop products to the Hospitality and Retail sectors worldwide.

Our principal business services the growing Hospitality market worldwide, providing high performance tableware and other products to a number of sectors. Our customers include pub, restaurant and hotel chains, sports and conference venues, health and education establishments and contract caterers. We are the market leader in hospitality tableware in the UK and have significant and growing positions in many export markets.

We also manufacture and source product sold through Retail customers for consumer use in the home, again in many markets across the world.

At the heart of our business are our UK based design, technical and production operations. We offer a high level of service, design and manufacture of an engineered, performance, product. Our steady investment in new product development produces a leading edge range meeting exacting customer requirements. We maintain our manufacturing and technical excellence through a consistent programme of investment in improved capability, process development and new manufacturing technology.

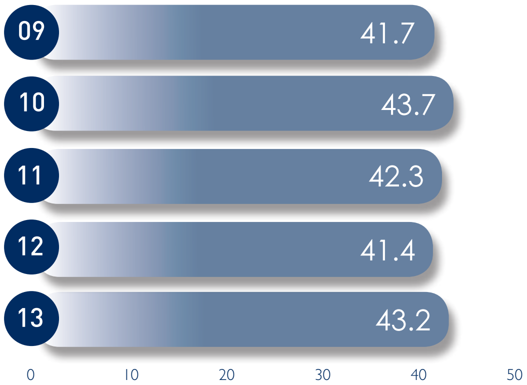
We maintain a strong ungeared, balance sheet. We aim to improve performance steadily on a long term basis and to generate cash each year to re-invest within our business and to provide an attractive return to shareholders.

Profile

Contents

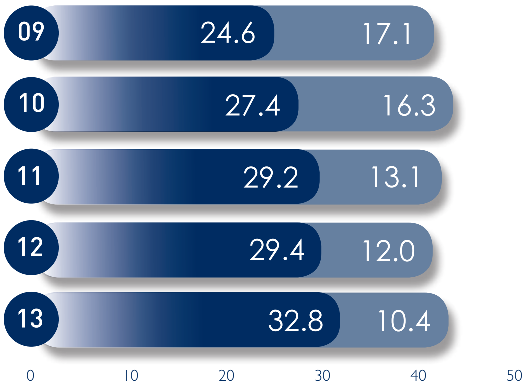
Five Year Performance

Group Revenue (£m)



Group revenues up 4% to £43.2m

Segment Revenue (£m)

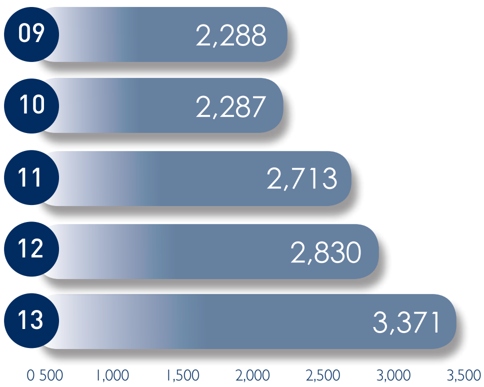


Strong growth in Hospitality revenues up, 11%

- Driven by UK and European investment and market growth
- Hospitality revenues represent 76% of overall Group revenues

- Dark Blue (Left) - Hospitality
- Light Blue (Right) - Retail

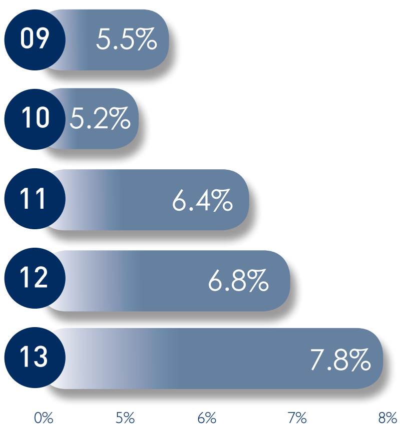
Operating Profit (£'000)



Operating Profit up 19% to £3.4m

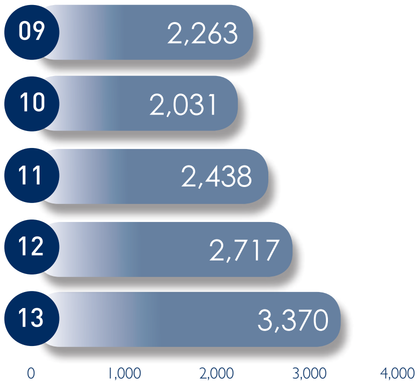
- Succesful new product introductions
- Increased sales of value added product
- Improved factory efficiency
- Continued cost focus

Operating Margin (%)



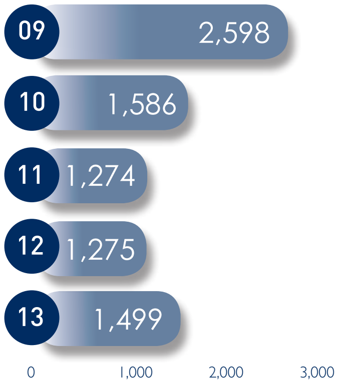
Operating margin increased to 7.8%

Pre Tax Profit (£'000)



Pre tax profit* up 24% to £3.4m

Capital Expenditure (£'000)



Capital expenditure of £1.5m principally in new manufacturing facilities

Other Highlights

Net cash and deposit balances up 17% to £8.2m

Earnings per Share* up 29%

Dividend up 3%

Total shareholder return 35%

*2012 comparative figures restated for the introduction of IAS 19 (Revised)

Textured Prints

Financial Highlights

	2013 £'000	2012* £'000
Results		
Revenue	43,157	41,435
Operating profit	3,371	2,830
Share of results of associate company	116	18
Net finance cost	(117)	(131)
Profit before income tax	3,370	2,717
Dividends paid	1,564	1,529

Key Ratios

	2013	2012*
Earnings before interest, tax, depreciation and amortiastion (£'000)	4,967	4,422
Operating margin	7.8%	6.8%
Basic earnings per share	25.2p	19.6p
Diluted basic earnings per share	24.9p	19.5p
Dividends paid per share	14.3p	14.0p

*re-stated for impact of IAS19 (Revised), see note 1

Profile

Vintage Prints

Signature Tile

Directors, Secretary and Advisers

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

NON-EXECUTIVE
DIRECTORS
A J McWalter (Chairman)*•
J W Morgan *•
B M Hynes *•

SECRETARY
AND REGISTERED OFFICE
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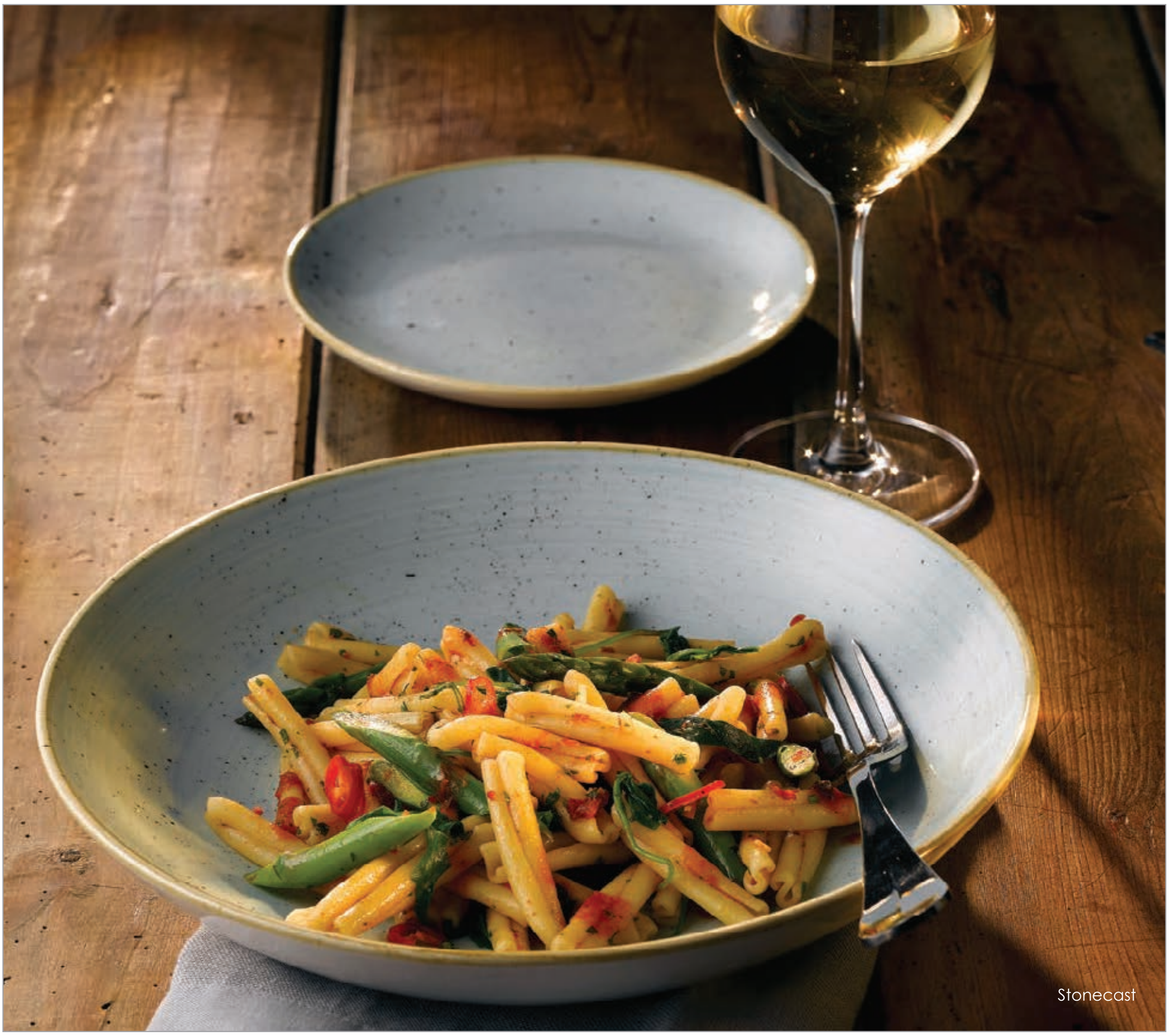
BN99 6ZX

* Member of audit committee
• Member of remuneration committee
Registered no: 2709505

"I am delighted to report a significant increase in Group profitability"

INTRODUCTION

I am delighted to report a significant increase in Group profitability for 2013. Group revenue and operating profit increased substantially, driven by our strategies of excellence in design, quality and service, supported by long term investment into all facets of our business. The Hospitality business reported record revenues building on its strong position in growing markets. Our Balance Sheet remains robust.



Stonecast


"Excellence in design, quality and service"

FINANCIAL REVIEW

Total Group revenues increased by 4% to £43.2m (2012: £41.4m).

Group operating profit increased by 19% to £3.4m (2012: £2.8m). Operating margins improved to 7.8% (2012: 6.8%) as a result of increased factory volumes and more favourable exchange rates. Earnings before interest, tax, depreciation and amortisation increased by 12% to £5.0m (2012: £4.4m).

Group profit before tax rose by 24% to £3.4m (2012 restated: £2.7m), with the improved operating performance supported by an increased contribution from our associate company. Comparative profit figures for 2012 have been restated to reflect the introduction of IAS 19 (revised) in relation to interest on pension fund liabilities.

Earnings per share improved by 29% to 25.2p (2012 restated: 19.6p).

We have continued to generate strong operating cash flows which allow us to invest in the development of our business and to deliver increased returns to shareholders. Operating cash generation was £4.6m (2012: £3.4m) after allowing for acceleration of pension fund amortisation payments. We continued to manage working capital well and have substantially reduced inventory levels during the period. At the end of the year net cash and deposit balances had risen by £1.2m to £8.2m (2012: £7.0m). We continue to invest in the capabilities of our business. Capital investment was £1.5m (2012: £1.3m) of which the largest part related to the long term development of our Stoke-on-Trent manufacturing facility.

Dividend and Shareholder Return

The Board is recommending a 0.3p increase in the final dividend to 9.7p per share (2012: 9.4p), giving a total of 14.6p for the year (2012: 14.2p). We appreciate, in the current climate, the value that our investors place on a progressive dividend policy and a yield from their investment. If approved, the final dividend will be paid on 23 May 2014 to shareholders on the register on 25 April 2014.

Total shareholder returns have again been good reflecting both our return to dividend growth and our improved performance. Overall returns were 35% (2012: 16%) during the year.


Retro blue


Buffet trays


Glide

"We continue to invest in the capabilities of our business"

"The Hospitality business reported record revenues"

HOSPITALITY

Total sales to our Hospitality customers increased by £3.4m (11%) and reached an all time high of £32.8m (2012: £29.4m). Contribution to Group operating profits rose to £5.1m from £4.2m.

The UK market was buoyant across the second half of 2013. Despite an unprecedented level of orders in the pre-Christmas build up, our production and logistics specialists were able to maintain the impressive service levels for which Churchill is renowned. As UK market leader, we operate in all end user sectors through a wide range of national and regional distributors. It is pleasing to record that our UK sales team delivered a 10% increase in sales during the period. This was indicative of healthy background demand and was not dominated by large new installations.

Our export revenues increased by an impressive 14% in 2013. To support this strategy to grow our export business requires substantial investment in sales, marketing and new product development. Potential overseas customers are not necessarily aware of the fact that the vitrified, pin fired fine china that we manufacture in Stoke-on-Trent performs better in use than equivalent porcelain, stoneware or bone china. We believe that a spread of international markets offers a wider and therefore more stable future platform for the business.

The success of our design portfolio and in particular Bamboo, Vintage Prints and Stonecast, are clear evidence that the Churchill new product development and marketing teams are fully aligned to market trends. It is worth noting that many of our end users are asking for surface decoration, usually more associated with retail or domestic fashion, but with commercial performance criteria. This allows us to optimise the use of our manufacturing capabilities.


Bamboo


Bamboo


Bamboo

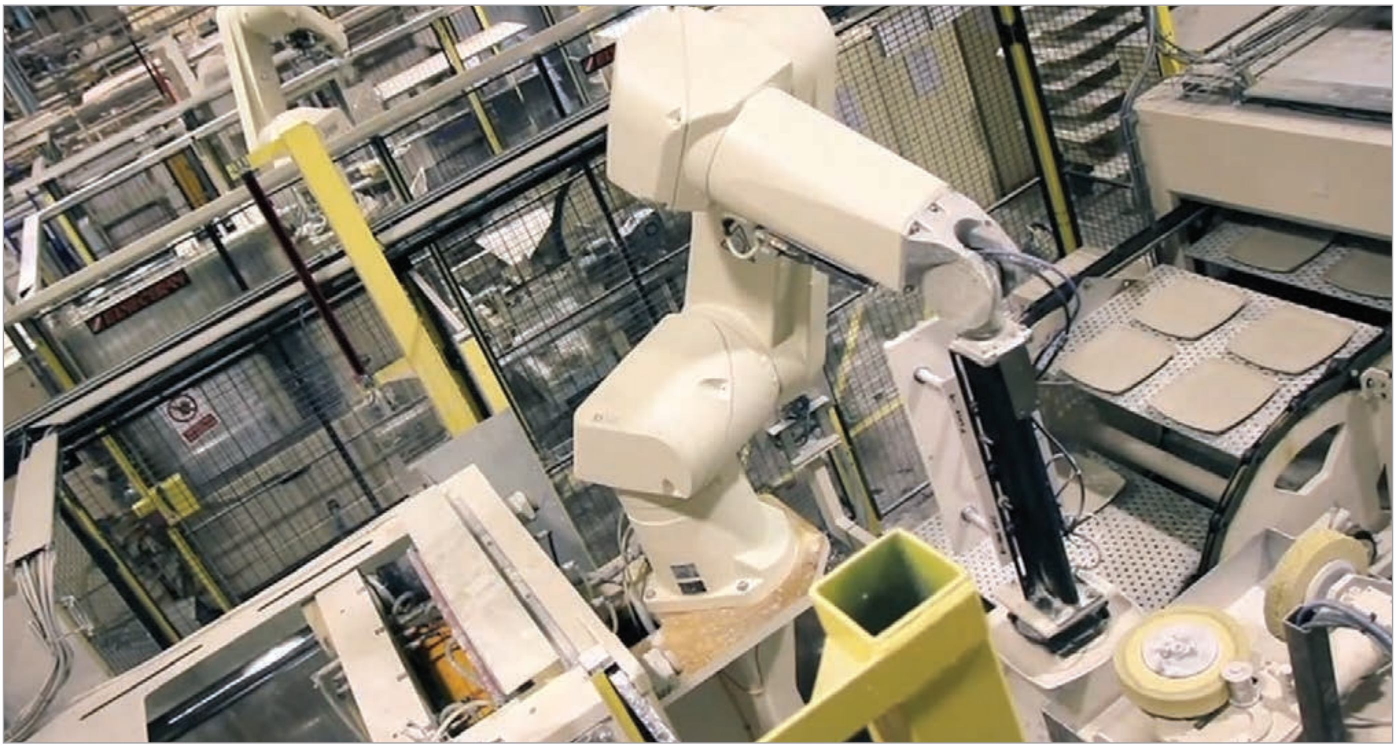
"Product excellence requires manufacturing excellence"

MANUFACTURING and OPERATIONS

There was a steady increase in production levels over the year and as a result factory efficiency improved. It is pleasing to note that our programme of sustained investment over many years continues to deliver increased efficiencies. We are fully committed to our manufacturing and logistics facilities in Stoke-on-Trent. We operate from single storey, modern buildings on a 26 acre site with plenty of room for expansion.

Product excellence requires manufacturing excellence both in terms of quality and value. New investment projects completed in 2013 included the installation of a new clay waste recovery system, robotics for the manufacture of large flatware products and the purchase of an Eisenmann glost kiln. We expect that this kiln, to be commissioned later in 2014, will deliver benefits across our operational base, generating improvements in energy efficiency, labour costs, yield, flexibility and tighter technical control.


Vintage Prints



> “There remains great synergy between our Retail and Hospitality businesses”

RETAIL

Retail saw a small decline in contribution to Group operating profits during the year to £1.2m (2012: £1.4m). Sales were affected by increased costs on imported ranges as a result of the EU Anti-Dumping Duties on imported products and declined by 14% to £10.4m (2012: £12.0m). We opted to increase prices to cover these new taxes and this resulted in reduced volumes.

Our strategy to develop sales of our own branded higher margin products such as Caravan Trail and Little Rhymes is working well as sales in some of our major licences have reduced.

There remains great synergy between our Retail and Hospitality businesses. An increasing proportion of our printing technology and capacity is now being applied to the development and growth of successful products such as Vintage Prints for our Hospitality accounts.


Sieni

"We have a talented, dedicated and hard working team at Churchill"

PEOPLE

We have a talented, dedicated and hard working team of people at Churchill who can be justly proud of their achievements. Their Health and Safety and attendance records are excellent. I am proud to report that a total of £47,000 was raised for Douglas Macmillan Hospice, our chosen charity for 2013. A big thank you to our workforce, their friends and relatives, and to our customers and suppliers who all contributed to this most worthy cause.

Our Board has developed over the year with the appointment of Brendan Hynes as a Non-Executive Director and will continue to evolve through 2014. Andrew Roper will retire as an Executive Director in August and will assume a non-executive role. The succession process is well underway and David O'Connor, currently Chief Operating Officer, will be formally appointed to the role of Chief Executive Officer in the summer.

> “Our strategies continue to lay down the platform for the future growth of our Hospitality business”

PROSPECTS

2013 was another good year for Churchill China. Our strategies continue to lay down the platform for the future growth of our Hospitality business and our pragmatic but passionate team have the right blend of expertise and talent to deliver these plans.

Churchill’s strong balance sheet enables us to take a long term view of investment in all aspects of the business from factory efficiency to sales, marketing and new product development.

Despite uncertainties with the global economy and unfavourable currency rates the Board expects that Churchill will continue to deliver further shareholder value in 2014.

A J McWalter
Chairman
26 March 2014

Penzance

Stonecast

The Directors present their Strategic Report for the Group for the year ended 31 December 2013. A review of the operations of the Group during the year and its future prospects are given in the Chairman's Statement on pages 6 to 15 and in the following pages.

Principal activity and business environment

The Group operates in many different geographic markets serving hospitality and retail customers with a range of tabletop products, principally ceramic tableware. The majority of our revenues are generated from our UK manufacturing plant, supplemented by products sourced from third party suppliers overseas. Whilst our largest exposure is to the UK market, where we generate over 60% of our gross revenue, we also enjoy significant sales to Europe and North America which respectively account for 20% and 9% 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 are generally recognised as being long term markets linked to economic growth and increased levels of dining out by consumers. Our product is a high quality, engineered product designed to meet exacting design, performance and technical standards within the hospitality industry. It is generally sold to end users through well developed, hospitality specific, distribution with a high service level requirement. A significant proportion of sales each year will be repeat or replacement sales to existing customers. 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.

Whilst larger in scale than Hospitality markets, Retail markets are normally faster moving and are subject to a higher level of competition. Product life cycles are generally shorter, particularly in more price sensitive sectors of the marketplace.

We believe that there has been some growth in our markets during the year, particularly in the UK and North American hospitality sectors. Elsewhere we have moved forward through increases in market share. Progress continues to be possible only given clear focus on long term market development, careful management of commercial relationships and a consistent programme of investment. Forecasts for the UK and our major export markets suggest that economic growth may improve in 2014, but only at relatively restrained levels.

As the majority of our products are used in the consumption of food, we are subject to a wide range of regulatory requirements in relation to our product. It is important to our success that we understand and meet regulation in these areas. As a substantial employer and manufacturer we also need to comply with extensive health and safety requirements.

The Group operates from one main location in Stoke-on-Trent, England where we carry out all major business functions including design and development, manufacturing, logistics, sales and marketing and administration. There are also a number of smaller locations and representative offices around the world.

Strategy

The Group's objective is to generate benefits to all stakeholders in the business by the provision of value to customers through excellence in design, quality and service. We aim to increase long term shareholder returns 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 sustainable levels of revenue and profitability and to reduce our exposure to markets where the margin on sales does not adequately cover our costs of operation. At present this leads us towards development of our position in hospitality markets worldwide and by increased focus on particular sectors of the retail market.

Our strategic process is designed to allow us to identify markets where we may profitably grow our revenues on a long term basis. We research customer product requirements and the distribution structure in new markets and then invest to generate revenue, margin and ultimately a return for shareholders. We expect short to medium term growth to be at a higher rate in export markets, although we continue to develop our UK position.

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 also invest steadily in 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.

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.

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 and to meet ambitious on time, in full, delivery targets. We invest regularly in these facilities to maintain a market leading position in customer service.

Resources and relationships

Our key resources remain our customers and employees, our technical and business skills, our long heritage of manufacturing and willingness to embrace new methods to deliver an outstanding service. Whilst Churchill is not a global consumer brand it is recognised in the hospitality and housewares markets as representing performance, innovation, uncompromising service and responsiveness.

We have long standing relationships with our customers. Whilst many of these are not contractual we continue to supply the same customers year after year with products that meet their requirements, often in harsh operating environments. Our customers value our technical ability, our service and increasingly our commitment to high quality design and innovation.

Our employees also give us significant advantage. We believe we recruit and retain high quality individuals at all levels within the business who contribute towards the success and development of the Company. Almost without exception our employees demonstrate enviable commitment, skill and loyalty.

The Group operates principally from our site in Stoke-on-Trent, one of the prime locations for ceramic excellence worldwide. This gives us access to key suppliers, technical support and experienced staff. Our manufacturing plant and logistics facilities have benefitted from significant and regular investment to improve our business's efficiency and effectiveness. We believe we operate a cost effective and flexible manufacturing process allowing us to respond quickly to customer needs.

Performance

Hospitality markets have generally performed well, with increased levels of dining out in the UK and continued investment by pub, restaurant and hotel owners as major drivers of demand for our products. We have begun to see a return on our increased investment in the development of European markets despite continued economic uncertainty in the region. Extensions to our product range, distribution network and increased sales resource have all contributed to strong growth in revenues. This has been supported by a more favourable exchange rate. Our North American revenues have improved given additional management focus.

Retail markets have remained difficult with little evidence of any substantial recovery in consumer spending on household goods. Our position in the UK and other European markets has also been affected by the introduction of Anti Dumping Duty on imports of ceramics from China by the European Union. Whilst we took action to mitigate the effect of this change, the duty has affected both our revenues and profitability. Revenues from licensed product have also reduced although the effect of this has been mitigated by increased sales of Churchill branded products.

We ended 2013 with record Hospitality sales and the best Group operating performance in over fifteen years. We believe that the continued investments in sales, products and not least in our UK factory made in the year will underpin further progress in the future. We have a strong balance sheet including over £8m of net cash and short term deposits.

The introduction of additional duties on Chinese imports should continue to be positive for all UK ceramics manufacturers in the medium term. Labour rates and material and energy costs have risen again although the effect of these has been mitigated by increased efficiency within our operations. We have invested significantly in new products and our manufacturing process over several years and a number of these investments have contributed to our margin position both through cost reduction and improving our ability to offer cost effective added value products to our customers.

The cost of imported product has continued to rise through 2013 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.

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 2013: £43.2m (2012: £41.4m)

Hospitality	£32.8m (2012: £29.4m)
Retail	£10.4m (2012: £12.0m)

Revenue growth 2013: 4% (2012: -2%)

Hospitality	11% (2012: 1%)
Retail	-14% (2012: -8%)

Sales to UK hospitality customers performed strongly, recording growth of 10%. Export sales rose by a higher figure, 14%, largely as our European business began to deliver returns against the investments we have made in the market. Retail sales were lower, reflecting a more difficult UK market following price rises attendant on the introduction of Anti Dumping Duty and lower levels of Export business.

Customer service and inventory

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

Inventory 2013: £8.8m (2012: £9.9m)

The fall in inventory holding levels reflects the strong trading levels experienced in Hospitality markets at the end of 2013 and the planned reduction of strategic stock holdings purchased at the end of 2012.

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 2013: £3.4m (2012: £2.8m)

Group operating profit increased by over 19%. Performance in our Hospitality division was significantly stronger as high revenue levels offset the cost of further investment in future development. Lower Retail profit reflected reduced sales. Central costs rose slightly. Operating margins increased satisfactorily to 7.8% (2012: 6.8%) reflecting an increased mix of added value product and withdrawal from less profitable market sectors 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 2013: £3.4m (2012: £2.7m)

Profit before taxation moved forward by 24% mainly as a result of the strong increase in operating profits. The notional interest charge associated with our pension scheme remained unchanged at £0.2m. 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 2013: £4.6m (2012: £3.4m)

Percentage of operating cash generation to operating profit for the year 135% (2012: 121%).

Three year average percentage of operating cash generation to operating profit 156% (2012: 134%).

Operating cash generation was maintained at satisfactory levels given continued control of working capital. The increased level of operating profit was enhanced by a substantial reduction in inventory holdings. Whilst deficit amortisation payments to the Group's final salary pension scheme were accelerated, overall cash generation remained strong.

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 continued investment in new product development for hospitality products. We believe that the return from our Retail business will remain affected in the short term by the increased levels of import duty on product sourced from China, although this should be balanced by benefits to our UK made products, the majority of which are sold into hospitality markets. 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 developing 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 remain difficult given economic constraints and continued impact from changes in duty rates. We 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 would normally expect to have net Euro receipts but are working to reduce our overall trading exposure where possible.

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. New and more stringent standards may be introduced.

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.

On behalf of the Board

D J S Taylor
Company Secretary
26 March 2014

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2013.

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 40.

A review of the operations and future prospects of the Group is given in the Chairman's Statement on page 6 and in the Strategic Report on page 16.

The principal activity of the Group is the manufacture and sale of ceramic and related products for hospitality and household markets around the world.

Dividends

The Directors have paid the following dividends in respect of the years ended 31 December 2013 and 31 December 2012:

	2013	2012
	£'000	£'000
Ordinary dividend:		
Final dividend 2012 9.4 p (Final dividend 2011: 9.2p) per 10p ordinary share	**1,027**	1,005
Interim dividend 2013 4.9p (2012: 4.8p) per 10p ordinary share	**537**	524
	1,564	1,529

The Directors now recommend payment of the following dividend:

Ordinary dividend:		
Final dividend 2013 9.7p (2012: 9.4p) per 10p ordinary share	**1,062**	1,027

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:

A J McWalter* (Chairman)
J N E Sparey * (resigned 22 May 2013)
A D Roper
D J S Taylor
D M O'Connor
J W Morgan*
B M Hynes * (appointed 23 September 2013)

* Non-Executive

The Directors retiring by rotation are D J S Taylor and A J McWalter who being eligible, offer themselves for re-election. The unexpired terms of the service contracts of D J S Taylor and A J McWalter are twelve months and twenty five months respectively.

B M Hynes was appointed as a Director of the Company on 24 September 2013 and in accordance with the Company's articles retires at the next Annual General Meeting. The unexpired term of B M Hynes' service contract is thirty months.

The biographical details of the Directors are as follows:

Andrew Roper, Chief Executive Officer, aged 65, 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 54, has worked for the Group for 22 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 57, has worked for Churchill for 23 years in a number of production, operations and marketing roles. He has extensive experience within the Ceramics industry and joined the Board in 1999.

Alan McWalter, Non-Executive Chairman, aged 60, 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.

Jonathan Morgan, Non-Executive Director, aged 56, is a Director of GVO Investment Management Limited and has many years of experience in investment management within small and medium sized growth companies. He was previously a director of SVG Investment Managers Limited. He joined the Board in 2007.

Brendan Hynes, Non-Executive Director, aged 53, is currently Chairman of Swallowfield plc alongside other directorships. He is a member of the CBI North West regional Council and was previously Chief Executive Officer of Nichols plc from 2007 to 2013. He joined the Board in 2013.

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 Company recognise that well trained motivated employees are core to the current and future success of our business. We involve our workforce through open communication including team briefs and works committees to encourage engagement with the strategy and goals of the business. In response to changes in industrial relations practice within the UK ceramic industry this year we introduced plant bargaining and worked together with our employees union to develop a relationship that will benefit our employees and meet our business needs.

We have continued to work with our local further educational colleges and training organisations including the Ceramics Skills Academy to develop and provide vocational training for employees. We support a number of employees who are pursuing professional qualifications whether it be in marketing, accountancy or more generic post graduate business schemes. We continue to develop our multi skilling programmes particularly for supervisory and engineering employees enabling us to meet our strategic manufacturing objectives. Our long-term commitment to all our employees has helped morale, motivation and labour retention.

We remain committed to our graduate training programme helping local graduates into our industry. In the nine years since we established this initiative we have recruited a number of graduates who now hold senior posts within the business and are key to our succession plans for the future. We have this year also recruited a small number of apprentices into skilled roles in the factory reinforcing our commitment to UK manufacturing.

We remain fully committed to equal opportunities employment policy offering equality in recruitment, training and career development irrespective of gender, ethnic origin, age, marital status, religion, sexual orientation or disability. We actively work with employees who suffer ill-health during their employment with us to rehabilitate them back into the workforce wherever possible.

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 steadily 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.

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.

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 through 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.

This year we supported our local hospice the Douglas MacMillan Home in celebrating its 40th Anniversary by committing to raise £40,000. All our employees supported the initiative by organising a series of fund raising events. The highlight of this effort was the production of 5,000 mugs made by our employees free of charge with materials donated by our suppliers. One of these mugs was made from scratch, then delivered to our London Showroom from Stoke within 48 hours by a team of 37 runners from across the business, demonstrating our Company commitment to our customers to deliver products within the same 48 hour period. To date the total raised is just over £47,000.

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 materials and process technologies 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.

Insurance for Directors

The Group maintains liability 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 £4.6m of operating cash flow and after payment of corporate taxation of £0.7m, invested £1.3m net in capital projects and returned £1.6m 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 Remuneration Report, held by persons acting together, which at 14 March 2014 exceeded 3% of the Company's issued share capital:

Shareholder	**Number of ordinary shares**	**Percentage**
New Landfinance Holdings Limited BVI	1,900,000	17.4%
J A Roper	1,102,500	10.1%
S Baker	1,095,000	10.0%
Investec Wealth and Investment	695,099	6.4%
E S & SJ Roper	652,265	6.0%
M J & G Roper	505,565	4.6%
Rathbone Nominees Limited	455,090	4.2%
Henderson Global Investors Limited	440,000	4.0%

Share repurchase

The maximum number of shares held in treasury by the Company during the year was 43,000 10p ordinary shares. During the year the Company repurchased 15,000 (2012: nil) 10p ordinary shares at a total cost of £52,000 (2012: £nil) in order to improve overall shareholder return. 36,000 (2012: Nil) shares were re-issued in respect of employee share option schemes for a total consideration of £75,000 (2012: £nil). The Company retains a power, subject to the fulfilment of certain conditions and as approved at the 2013 Annual General Meeting, for the further purchase of its own shares.

Political contributions

The Group made no political contributions (2012: £nil) during the year.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom

Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

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

The Directors are responsible for the maintenance and integrity of the Company's website. 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. 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
26 March 2014

Annual Statement

This section of the Remuneration Report is not audited.

The Remuneration Committee considered two main issues this year, firstly to continue to develop the alignment of Executive Directors' remuneration packages with shareholders interests and secondly how to reflect the changes in the structure and reporting of Remuneration and Remuneration Policy as proposed in the new Directors Remuneration Report ('DRR') regulations.

The backdrop to the remuneration report this year is that the Group has continued to progress well. Performance in 2013 was very strong with operating profits 19% ahead of the prior year. This is a continuation of our record of growth over the medium term. We have also made further investment in the long term future of the Company. We grew pre tax profit by 24% and cash balances have increased by £1.2m. We have increased our dividend to shareholders and total shareholder return over the year rose by 35%, or over £11m in absolute terms.

Given this performance, we are pleased that the Executive Directors have achieved higher profit related bonus payments, aligning the interests of shareholders and Directors. Overall Board remuneration rose by 18% with an increase in variable pay accounting for substantially all of this rise. In addition further awards were made to two of the Executive Directors under the Company's Long Term Incentive Plan introduced in 2012. There has been no substantial change to our remuneration policy over the year.

We have addressed the proposals in the revised DRR guidelines. As an AIM listed company, Churchill China plc is not required to adopt these new regulations, but in keeping with our approach we believe we should reflect good practice where this is in the interests of shareholders. As such we have adopted the majority of the disclosure requirements identified in the DRR proposals and the following pages will illustrate both our remuneration policy and the results of its implementation during 2013. Where we believe the proposals within the DRR are of benefit to shareholders, we have followed the guidance. However where the requirements are more costly or onerous for the Company and of less benefit to shareholders we have not produced the information.

It is a proposal within the new regulations that Remuneration Policy is subject to a binding vote at the Company's Annual General Meeting for Full List companies. As an AIM listed company we are not subject to this requirement and we have decided not to seek shareholder approval of our Policy at the present time as we believe that we should await the emergence of good practice for AIM companies. We believe that our levels of remuneration are fair, reasonable and balanced and that we have strong governance in this area. We will continue to put a motion to the Annual General Meeting in relation to approval of the Annual Report on Remuneration and will also continue to seek shareholders views on our remuneration levels.

We intend to continue to review emerging practice in this area and we expect our remuneration policies and reporting to evolve in the medium term.

The Remuneration Committee is composed of J W Morgan, who acts as Chairman, A J McWalter and B M Hynes, all of whom are Non-Executive Directors.

During the year the following provided advice which materially assisted the Remuneration Committee; New Bridge Street (a part of Aon Hewitt Limited) and Deloitte LLP. A D Roper (Chief Executive Officer) and A M Basnett (HR Director, Churchill China (UK) Limited) attended the Remuneration Committee meetings.

Directors' remuneration policy

This section of the Remuneration Report is not audited. This section sets out the Company's directors' remuneration policy, which will apply from the date of the 2014 Annual General Meeting. The policy is determined by the Remuneration Committee of the Company.

The Remuneration Committee also reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy set out below where the terms of the payment were agreed:

- before the Policy came into effect or
- at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a director of the Company.

For these purposes "payments" includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted. For the avoidance of doubt, the Remuneration Committee's discretion includes discretion to determine, in accordance with the rules of the LTIP, the extent to which awards under that plan may vest in the event of a change of control or in a "good leaver" circumstance.

The Remuneration Committee may make minor changes to this Policy, which do not have a material advantage to Directors, to aid in its operation or implementation.

Future policy table

Executive Directors

The table below describes each of the elements of the remuneration package for the Executive Directors.

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Basic pay Core element of fixed remuneration to help recruit and retain employees of the appropriate calibre and experience	Basic pay for Executive Directors is normally reviewed annually (but may be reviewed more frequently if required). Consideration is given to the following when determining basic pay levels: • Market conditions including typical pay levels for comparator companies taking into account the relative scale and complexity of the role and business • Scale and scope of the role, experience and performance of the individual • Average change in salary for the workforce as a whole	There is no prescribed maximum annual increase. However, consideration is normally given to the average change in salary for the workforce as a whole. The Remuneration Committee considers any salary increases above the workforce average carefully. The Remuneration Committee may award salary increases above the workforce average in certain circumstances including, but not limited to: • An Executive Director assuming additional responsibilities • Significant improvement in individual performance • Salary falling behind market level	Not applicable, although overall performance of the individual and the Company is considered by the Remuneration Committee when setting and reviewing salaries.
Annual Bonus Rewards the achievement of annual financial and strategic business targets as well as the delivery of personal objectives	Bonus payments are made in cash following the completion of the audit for the year in which bonuses are earned. The Remuneration Committee may adjust the bonus pay-out should the formulaic outcome be considered not to reflect underlying business performance. Bonus payments are non-pensionable.	Executive Directors may earn up to 100% of basic pay as a bonus.	The bonus plan is based on the achievement of challenging performance targets. The financial measures which account for the majority of the bonus will generally include a measure of profitability and/or cash generation. Other targets may include the achievement of strategic objectives and specific personal objectives.

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Benefits Provide a market competitive benefits package to help recruit and retain employees of the appropriate calibre and experience	Executive Directors are entitled to receive benefits including healthcare benefits and a fully expensed company car (or cash allowance) where it is deemed necessary to their role. Executive Directors are entitled to receive repayment of costs deemed necessary for them to perform their duties. Other benefits may be provided based on individual circumstances including, but not limited to, housing or relocation expenses.	Set at a level which the Remuneration Committee considers to be appropriately positioned taking into account the scale and scope of the role and market conditions in comparator companies.	Not applicable.
Pensions Provide market competitive post-employment benefits to help recruit and retain employees of the appropriate calibre and experience	Executive Directors are entitled to membership of Company pension schemes in operation from time to time. The Company currently operates a defined contribution scheme. The Company previously operated a defined benefit scheme, which was closed for future accrual in 2006. All Executive Directors are deferred members of this scheme. Executive Directors may choose to receive a salary supplement in lieu of pensions up to the value of the normal contribution level at no extra cost to the Company. Bonus and other benefits received by Executive Directors do not count towards pensionable pay.	10% of basic pay under the defined contribution scheme.	Not applicable.

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Long term incentive schemes Incentivises employees to achieve a higher and sustained level of return to shareholders over a longer period of time Supports retention and promotes share ownership Clawback and malus applies to enable the Company to mitigate risk	The Company operates an LTIP approved by shareholders on 16 May 2012. LTIP awards are made on an annual basis typically in the form of nil or nominal cost options with vesting dependent on the achievement of performance conditions, normally over a three year period. Vested LTIP options must be exercised within ten years of the date of grant. No dividend equivalents are offered between grant and vesting. The Remuneration Committee has the right to operate both clawback and malus provisions in respect of LTIP awards in relation to circumstances of corporate failure which may have occurred at any time before claw back is operated. LTIP payments are non-pensionable.	Executive Directors may be granted LTIP awards up to 100% of salary each year. For threshold performance, 25% of the award vests. For on-target performance, 40% of the award vests. Straight line vesting applies between threshold, target and maximum vesting.	Challenging performance targets are set each year reflecting the business priorities that underpin longer term Group strategy. At least 50% of the LTIP award will normally vest based on adjusted Earnings Per Share performance targets.

The Company has previously operated Executive and unapproved Executive schemes in the form of share options. The Remuneration Committee does not expect further options to be granted under these schemes. Legacy options under these schemes may be exercised by Executive Directors until the expiry date of the relevant award.

Non-Executive Directors

The table below sets out an overview of the remuneration of Non-Executive Directors.

Purpose and link to strategy	Operation
Chairman and Non-Executive Director fees Provide an appropriate reward to help recruit and retain Non-Executive Directors of the appropriate calibre and experience	Fees for Non-Executive Directors are normally reviewed annually (but may be reviewed more frequently if required). Consideration is given to the following when determining fee levels: • Market conditions including typical fee levels for comparator companies • A Non-Executive Director's role and responsibilities Non-Executive Directors do not participate in any incentive scheme.

Explanation of performance metrics chosen

The annual bonus is assessed against financial, strategic and personal performance conditions, as determined by the Remuneration Committee. This incentivises Executive Directors to focus on delivering the financial goals of the Company, wider Company performance and bespoke individual objectives for each Executive Director. We believe that this encourages behaviour that facilitates the future development of the business.

The LTIP is assessed against longer term financial performance conditions, including adjusted earnings per share, to provide a robust measurement of the Company's financial performance over the longer term and ability to deliver a higher and sustained level of return to shareholders.

The Remuneration Committee retains the discretion to adjust the performance conditions and targets where it considers it appropriate to do so.

Pay policy for other employees

The Company values its wider workforce and aims to provide a remuneration package that is market competitive, complies with any statutory requirements and is applied fairly and consistently across the wider employee population. Where remuneration is not determined by statutory regulation, the key principles of the compensation philosophy are as follows:

- We remunerate people in a manner that allows for stability of the business and the opportunity for sustainable long term growth
- We seek to remunerate fairly and consistently for each role with due regard to market conditions, internal consistency and the Company's ability to pay

Total reward for Executive Directors will be set with sensitivity to subordinate staff within the Group with whom the packages will, as far as possible, be consistent and fair.

The Company takes into account the following when setting the remuneration policy for Executive Directors:

- Salary increases for the wider workforce
- Company-wide benefit (including pension) offerings
- Overall spend and participation levels in the annual bonus and LTIP

Statement of consideration of shareholder views

The Remuneration Committee considers a pro-active and transparent dialogue with its shareholders to be important. The Remuneration Committee will consult with major shareholders when it proposes to make any major changes to the remuneration policy for Directors.

Annual report on remuneration

This section of the Remuneration Report is audited.

Emoluments of the Directors were as follows:

	Salary £	Performance bonuses £	Benefits in kind £	Pensions (see below) £	Gains made on vesting of options £	**Single total figure of remuneration** **£**
2013						
Executive						
A D Roper	200,000	108,753	707	–	–	**309,460**
D J S Taylor	185,817	77,470	849	18,582	–	**282,718**
D M O'Connor	197,031	82,102	661	19,703	–	**299,497**
Non-Executive						
J N E Sparey*	25,000	–	–	–	–	**25,000**
A J McWalter	53,542	–	–	–	–	**53,542**
J W Morgan	38,000	–	–	–	–	**38,000**
B M Hynes*	13,000	–	–	–	–	**13,000**
	712,390	268,325	2,217	38,285	–	**1,021,217**
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**

* J N E Sparey's and B M Hynes' remuneration is shown to and from the date of their respective resignation from and appointment to the Board (22 May 2013 and 24 September 2013). A J McWalter was appointed Chairman on 22 May 2013.

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 2013 and 2012.

Pension costs above represent contributions made by the Group to defined contribution schemes.

Performance bonuses

Performance bonuses were awarded given the achievement of growth in Operating Profit substantially above target levels and also successful performance against personal objectives.

During 2013 Executive Directors were able to earn 5% of salary for achievement of threshold profit levels and 10% for on target performance. Maximum potential bonuses were up to 100%. Straight line vesting applied between threshold, target and maximum vesting.

Profit based awards during the year ranged from 34% to 44% of base salary and personal objectives 7% to 10% of base salary.

Long term incentive plan

This section of the Remuneration Report is audited.

Details of share options granted under the Long Term Incentive Plan are as follows:

	Date of grant	**Number of options 31 December 2013**	Number of options 31 December 2012	Exercise Price pence	Date from which exercisable	Expiry date
D J S Taylor						
Long Term Incentive Plan	21.06.12	**46,730**	46,730	10	Jun 2015	Jun 2022
Long Term Incentive Plan	03.05.13	**21,333**	–	10	May 2016	May 2023
D M O'Connor						
Long Term Incentive Plan	21.06.12	**49,524**	49,524	10	Jun 2015	Jun 2022
Long Term Incentive Plan	03.05.13	**22,609**	–	10	May 2016	May 2023

Exercise of the above options is subject to the achievement of performance conditions as specified by the Remuneration Committee and are subject to clawback and malus 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.

43,942 options were granted on 03 May 2013. The market price of the Company's shares at the date of grant was 345p.

For the options granted on 3 May 2013, 100% of the shares will vest given an increase of 42% in adjusted EPS* ('maximum performance') in the year to 31 December 2015 over the base year of 31 December 2012, 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.

*Given changes in accounting standards relating to the calculation of notional interest on pension scheme liabilities between the base year for the 3 May 2013 grant (year to 31 December 2012) and the year in which performance is tested (31 December 2015), notional pension fund interest has been excluded from both the base and target EPS levels.

Executive and unapproved Executive share option schemes

This section of the Remuneration Report is audited.

Details of share options granted under the Executive and unapproved Executive schemes are as follows:

	Date of grant	**Number of options 31 December 2013**	Number of options 31 December 2012	Exercise Price pence	Date from which exercisable	Expiry date
D J S Taylor						
Unapproved Executive scheme	30.04.04	**–**	10,000	208	Apr 2007	Apr 2014
D M O'Connor						
Unapproved Executive Scheme	30.04.04	**–**	6,000	208	Apr 2007	Apr 2014

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

On 1 May 2013 D J S Taylor exercised options over 10,000 shares and D M O'Connor exercised options over 6,000 shares, both under the unapproved Executive Share Option Scheme. The share price at the date of sale was 345p and the exercise price 208p. D J S Taylor realised a gain of £13,700 and D M O'Connor a gain of £8,220.

The above gains have not been disclosed in the preceding table of Directors Remuneration as under the revised DRR rules, gains on share options are disclosed in the year in which performance is tested. The above options vested in 2007, but were not exercised until 2013.

Phantom Share Scheme

This section of the Remuneration Report is audited.

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

	Date of grant	**Number of phantom Shares 31 December 2013**	Number of phantom Shares 31 December 2012	Base value Pence	Cap value Pence	Date from which exercisable	Expiry date
D J S Taylor	12.05.08	**–**	10,000	284	684	May 2012	May 2013
D M O'Connor	12.05.08	**–**	10,000	284	684	May 2012	May 2013

No Phantom Share Scheme options were granted or were exercised during the year. Phantom Share Scheme options granted on 12 May 2008 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 400p (2012: 307.5p). The range of prices for the year to 31 December 2013 was 305p to 404p (2012: 263p to 347p) per ordinary share.

Pensions

This section of the Remuneration Report is audited.

D J S Taylor and D M O'Connor are members of the Churchill China 2006 Group Personal Pension Plan. Contributions made by the Group were as shown on page 31 and are at a rate of 10% of basic salary. 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.

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 benefit of D M O'Connor is funded to allow retirement at 65 with a pension based on accrued service to 31 March 2006.

The value of A D Roper's accrued benefits earned under the Churchill Group Retirement Benefit Scheme was £2,819,278 (2012: £2,622,705). The value of the accrued pension was £140,967 (2012: £131,135). This increase in benefits reflected the normal change in benefits for a deferred member under the Scheme rules, no additional current service contributions have been made since the closure of the Scheme to future accrual in 2006.

Directors' service contracts

This section of the Remuneration Report 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. A J McWalter signed a fixed term contract of three years' duration on 4 June 2013. B M Hynes signed a fixed term contract of three years' duration on 14 August 2013. J W Morgan signed a fixed term contract of one years' duration on 24 March 2014. Non Executive Directors contracts may be terminated with a notice period of three months.

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

Directors' interests

This section of the Remuneration Report is not audited.

The interests of the Directors and their immediate families and family trusts at 31 December 2013 in the 10p ordinary shares of the Company were as follows:

	2013	2012
A D Roper	**662,430**	662,430
D J S Taylor	**20,000**	18,500
D M O'Connor	**6,000**	5,599
J W Morgan	**28,000**	28,000
A J McWalter	**5,000**	5,000
B M Hynes	**–**	–
	721,430	719,529

A D Roper's interest in the 10p ordinary shares of the Company at 31 December 2013 represented 6.1% (2012: 6.1%) of the Company's issued share capital.

There has been no change in the interests set out above between 31 December 2013 and 26 March 2014.

Director shareholding requirements

Directors are expected to hold shares in the Company in order to align their interests with those of shareholders. In the longer term Executive Directors are encouraged to hold the equivalent of 100% of annual base salary as shares in the Company and it is expected that this target level will be achieved by the retention of shares vesting under the Long Term Incentive Plan after the payment of associated tax.

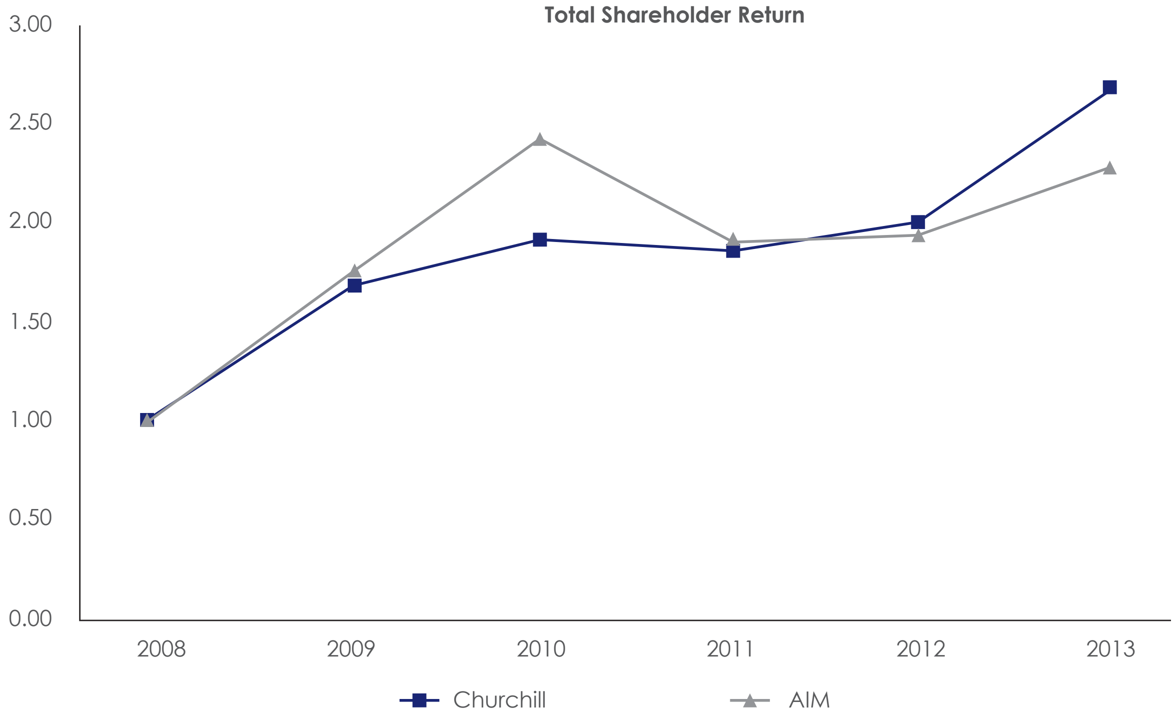
Shareholder consultation

The Remuneration Committee will consult with major shareholders in relation to its operation and particularly in relation to any major changes in remuneration policy. During the year, with the exception of the standard resolution at the Annual General Meeting, the Remuneration Committee did not believe there was any requirement to make any approach to shareholders on remuneration issues. No significant comments have been received from shareholders in relation to remuneration matters.

At the 2013 Annual General Meeting, the standard resolution in relation to the approval of the Report of the Remuneration Committee contained in the Annual Report for 2012 was passed. 99.93% of votes were cast in favour of the resolution, 0.02% against, with 0.05% abstaining.

Performance Graph

This section of the Remuneration Report 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. 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 progressive dividend policy. Our overall five year return has remained positive at an average compound rate of 22% (AIM: 18%). Over the five year period total shareholder return from the Group has been 171%, whilst that achieved by the AIM index as a whole was 126%. In the year to 31 December 2013 the overall return from the Group was 35%, the AIM index reported a 21% return.

In the opinion of the Directors the above index is the most appropriate to measure the total shareholder return of Churchill China plc against.

On behalf of the Board

J W Morgan
Chairman of the Remuneration Committee
26 March 2014

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 Company uses the Quoted Companies Alliances 'Corporate Governance Guidelines for Smaller Quoted Companies' as a benchmark to define and review it's governance procedures.

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. From 23 May 2013 to the appointment of B M Hynes on 24 September 2013 the Board operated with three Executive and two Non Executive members. This short period of non compliance is not believed to be of major significance. The Board has fully reviewed the independence of Non-Executive Directors and J W Morgan, A J McWalter and B M Hynes are all considered to be independent under the terms of the Code.

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

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

	Meetings held	Meetings attended
A D Roper	13	13
D J S Taylor	13	13
D M O'Connor	13	13
J N E Sparey	7	6
J W Morgan	13	12
A J McWalter	13	12
B M Hynes	3	3

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 B M Hynes.

The Audit Committee has considered the independence of the Auditors, PricewaterhouseCoopers LLP and is satisfied that they are independent.

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 those 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, risk is assessed as part of the strategic process. 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 economical 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
26 March 2014

Report on the financial statements

Our opinion

In our opinion:

- the financial statements, defined below, give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2013 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements and parent company financial statements (the "financial statements"), which are prepared by Churchill China plc, comprise:

- the Consolidated income statement and Consolidated statement of comprehensive income for the year ended 31 December 2013;
- the Consolidated balance sheet as at 31 December 2013;
- the Company balance sheet as at 31 December 2013;
- the Consolidated statement of changes in equity for the year then ended;
- the Consolidated cash flow statement for the year then ended;
- the Reconciliation of operating profit to net cash inflow from operating activities; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual report and financial statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities, 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 ISAs (UK & 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.

Paul Norbury (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
26 March 2014

Consolidated Income Statement

for the year ended 31 December 2013

	Notes	2013 £'000	2012* £'000
Revenue	4	**43,157**	41,435
Operating profit	5	**3,371**	2,830
Share of results of associate company	15	**116**	18
Finance income	8	**92**	76
Finance costs	8	**(209)**	(207)
Profit before income tax		**3,370**	2,717
Income tax expense	10	**(609)**	(571)
Profit for the year attributable to owners of the Company		**2,761**	2,146
Basic earnings per ordinary share	11	**25.2p**	19.6p
Diluted earnings per share	11	**24.9p**	19.5p

* restated for the impact of IAS 19 (revised), see note 1

All of the above figures relate to continuing operations.

The notes on pages 47 to 76 are an integral part of these consolidated financial statements.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Company profit and loss account. The profit of the Company for the year was £1,432,000 (2012: £13,000)

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013

	2013	2012*
	£'000	£'000
Other comprehensive income / (expense)		
Items that will not be reclassified to profit and loss:		
Remeasurements of post employment benefit obligations (note 23)	**644**	(1,813)
Items that may be reclassified subsequently to profit and loss:		
Impact of change in UK tax rate on deferred tax on revaluation reserve	**37**	–
Currency translation differences	**(5)**	(11)
Other comprehensive income / (expense) for the year	**676**	(1,824)
Profit for the year	**2,761**	2,146
Total comprehensive income for the year	**3,437**	322
Attributable to:		
Equity holders of the Company	**3,437**	322

* restated for the impact of IAS 19 (revised), see note 1

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 2013

	Notes	2013 £'000	2012* £'000
Assets			
Non current assets			
Property, plant and equipment	13	**13,667**	14,162
Intangible assets	14	**359**	73
Investment in associate	15	**980**	864
Deferred income tax assets	22	**765**	1,285
		15,771	16,384
Current assets			
Inventories	18	**8,769**	9,877
Trade and other receivables	19	**8,571**	7,333
Other financial assets	20	**1,000**	500
Cash and cash equivalents		**7,199**	6,497
		25,539	24,207
Total assets		**41,310**	40,591
Liabilities			
Current liabilities			
Trade and other payables	21	**(8,298)**	(7,132)
Current income tax liabilities		**(564)**	(648)
		(8,862)	(7,780)
Non current liabilities			
Deferred income tax liabilities	22	**(1,102)**	(1,296)
Retirement benefit obligations	23	**(2,914)**	(5,054)
Total liabilities		**(12,878)**	(14,130)
Net assets		**28,432**	26,461
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	**(41)**	(89)
Other reserves	26	**1,332**	1,235
Retained earnings	27	**23,697**	21,871
Total equity		**28,432**	26,461

The notes on pages 47 to 76 are an integral part of these consolidated financial statements.

The financial statements on pages 40 to 76 were approved by the Board of Directors on 26 March 2014 and were signed on its behalf by:

A D Roper
Director

D J S Taylor
Director

Company number 2709505

	Notes	2013 £'000	2012* £'000
Fixed assets			
Investment in associate	15	**355**	355
Investments in subsidiaries	16	**2,195**	2,195
Deferred income tax assets	22	**8**	4
		2,558	2,554
Current assets			
Debtors: amounts falling due after more than one year	19	**5,310**	5,470
Debtors: amounts falling due within one year	19	**164**	159
Cash at bank and in hand		**421**	304
		5,895	5,933
Creditors: amounts falling due within one year	21	**(28)**	(28)
Net current assets		**5,867**	5,905
Total assets less current liabilities		**8,425**	8,459
Net assets		**8,425**	8,459
Capital and reserves			
Called up share capital	24	**1,096**	1,096
Share premium account	24	**2,348**	2,348
Treasury shares	25	**(41)**	(89)
Other reserves	26	**114**	39
Profit and loss account	27	**4,908**	5,065
Total shareholders' funds		**8,425**	8,459

The notes on pages 47 to 76 are an integral part of these financial statements.

The financial statements on pages 40 to 76 were approved by the Board of Directors on 26 March 2014 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 2013

	Retained earnings* £'000	Share capital £'000	Share premium account £'000	Treasury shares £'000	Other reserves £'000	Total £'000
Balance at 1 January 2012	23,082	1,096	2,348	(89)	1,216	27,653
Comprehensive Income:						
Profit for the year	2,146	–	–	–	–	2,146
Other comprehensive income:						
Depreciation transfer – gross	12	–	–	–	(12)	–
Depreciation transfer – tax	(27)	–	–	–	27	–
Remeasurement of post employment benefit obligations – net of tax	(1,813)	–	–	–	–	(1,813)
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 1 January 2013	21,871	1,096	2,348	(89)	1,235	26,461
Comprehensive Income:						
Profit for the year	2,761	–	–	–	–	2,761
Other comprehensive income:						
Depreciation transfer – gross	12	–	–	–	(12)	–
Depreciation transfer – tax	(2)	–	–	–	2	–
Deferred tax – change in rate	–	–	–	–	37	37
Remeasurement of post employment benefit obligations – net of tax	644	–	–	–	–	644
Currency translation	–	–	–	–	(5)	(5)
Total comprehensive income	3,415	–	–	–	22	3,437
Transactions with owners						
Dividends relating to 2012 and 2013 (note 12)	(1,564)	–	–	–	–	(1,564)
Share based payment	–	–	–	–	75	75
Treasury shares (note 25)	(25)	–	–	48	–	23
Total transactions with owners	(1,589)	–	–	48	75	(1,466)
Balance at 31 December 2013	**23,697**	**1,096**	**2,348**	**(41)**	**1,332**	**28,432**

* restated for the impact of IAS 19 (revised), see note 1

	2013	2012
	£'000	£'000
Cash flows from operating activities		
Cash generated from operations (see page 46)	**4,573**	3,433
Interest received*	**92**	76
Interest paid	**(12)**	(40)
Income tax paid	**(679)**	(728)
Net cash generated from operating activities	**3,974**	2,741
Cash flows investing activities		
Purchases of property, plant and equipment	**(979)**	(1,182)
Proceeds on disposal of property, plant and equipment	**101**	88
Purchases of intangible assets	**(353)**	(6)
Net cash used in investing activities	**(1,231)**	(1,100)
Cash flows from financing activities		
Issue of ordinary shares	**75**	–
Purchase of treasury shares	**(52)**	–
Dividends paid	**(1,564)**	(1,529)
Sale of other financial assets	**500**	–
Purchase of other financial assets	**(1,000)**	(500)
Net cash used in financing activities	**(2,041)**	(2,029)
Net increase / (decrease) in cash and cash equivalents	**702**	(388)
Cash and cash equivalents at the beginning of the year	**6,497**	6,886
Exchange losses on cash and cash equivalents	**–**	(1)
Cash and cash equivalents at the end of the year	**7,199**	6,497

* 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

	2013 £'000	2012 £'000
Continuing operating activities		
Operating profit	**3,371**	2,830
Adjustments for:		
Depreciation and amortisation	**1,596**	1,592
Loss/(profit) on disposal of property, plant and equipment	**11**	(2)
Charge for share based payments	**75**	15
Difference between pension service cost and contributions (see note 23)	**(1,344)**	(672)
Changes in working capital:		
Inventory	**1,108**	(751)
Trade and other receivables	**(1,244)**	417
Trade and other payables	**1,000**	4
Net cash inflow from operations	**4,573**	3,433

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.

Prior year restatement – impact of IAS 19 (revised)

IAS 19 (revised), amongst other changes, amends the expected long term rate of return on defined benefit plan asset classes from that applying to the individual asset class held to the same rate as that used to discount the scheme's liabilities.

The impact of the adoption of this revised standard on the Consolidated Income Statement is a change of £537,000 in Interest on pension scheme in the year to 31 December 2013, with £340,000 finance income being revised to a finance cost of £197,000 and in the year to 31 December 2012 a change of £370,000 in Interest on pension scheme, revising finance income of £203,000 to a finance cost of £167,000. The tax charge for the year to 31 December 2013 has reduced by £124,000 and by £89,000 for the year to 31 December 2012 accordingly. The post tax impacts of these changes are matched by increases in other comprehensive income.

The impact on earnings per share is a change of 3.8p per share from 29.0p per share to 25.2p in the year to 31 December 2013 and a change of 2.6p per share from 22.2p to 19.6p in the year to 31 December 2012. In relation to diluted earnings per share there is a change of 3.8p from 28.7p to 24.9p per share in the year to 31 December 2013 and a change of 2.5p per share from 22.0p to 19.5p in the year ended 31 December 2012.

Comparative financial information shown in the financial statements has been amended accordingly.

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

The following standards have been adopted by the group for the first time for the financial year beginning on 1 January 2013 and have a material impact on the group:

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 (reclassification adjustments).

IAS 19, 'Employee benefits' was revised in June 2011. The changes on the group's accounting policies has been 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). The impact on the financial statements is disclosed earlier in this note.

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.

1 Summary of significant accounting policies (continued)

(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 on or after 1 January 2014, 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:

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.

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.

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.

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 Group accounting policies under IFRS.

(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.

1 Summary of significant accounting policies (continued)

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

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 results 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 interest cost on defined benefit plans is included within finance income or cost, based on the discount rate on the net post employment obligation measured at the beginning of the year. 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.

Remeasurements of post employment benefit obligations 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.

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 in other comprehensive income.

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

1 Summary of significant accounting policies (continued)

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.

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.

1 Summary of significant accounting policies (continued)

Impairment of non financial assets

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

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.

1 Summary of significant accounting policies (continued)

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 2013, 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 £26,000 (2012: £17,000) higher / lower, 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 £13,000 (2012: £12,000) lower / higher 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 £4,000 (2012: £187,000) 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 2013, 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 (2012: £4,000) 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.

2 Financial risk management (continued)

Cash and cash equivalents are as follows:

	Credit rating	**2013 £'000**	2012 £'000
Lloyds Bank plc	A	**5,979**	5,031
Royal Bank of Scotland plc	A	**762**	753
Santander UK plc	A	**253**	500
Other	Min A	**205**	213
		7,199	6,497

Other financial assets are as follows:

	Credit rating	**2013 £'000**	2012 £'000
Lloyds Bank plc	A	**1,000**	500
		1,000	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 £202,000 (2012: £348,000).

(b) Pension benefits:

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

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

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

(c) Recognition of deferred tax assets

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

4 Segmental analysis

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

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

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

4 Segmental analysis (continued)

Primary reporting format – business segments

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

	31 December 2013			
	Hospitality £'000	**Retail £'000**	**Unallocated £'000**	**Group £'000**
Revenue from external customers	**32,753**	**10,404**	**–**	**43,157**
Contribution to Group overheads excluding depreciation and amortisation	**6,188**	**1,493**	**(2,714)**	**4,967**
Depreciation and amortisation	**(1,133)**	**(259)**	**(204)**	**(1,596)**
Operating profit	**5,055**	**1,234**	**(2,918)**	**3,371**
Share of results of associate company				**116**
Finance income				**92**
Finance cost				**(209)**
Profit before income tax				**3,370**

	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				76
Finance cost				(207)
Profit before income tax				2,717

* restated for the impact of IAS 19 (revised), see note 1

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 (2012: £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 2013 and capital expenditure for the year ended on that date are as follows:

	Hospitality £'000	Retail £'000	Unallocated £'000	Group £'000
Assets excluding inventories	15,807	4,448	11,306	31,561
Inventories	6,195	2,574	–	8,769
Investment in associates	–	–	980	980
Total assets	22,002	7,022	12,286	41,310
Total liabilities	4,380	929	7,569	12,878
Capital expenditure	1,032	35	432	1,499

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

(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.

	2013 £'000	2012 £'000
Geographical segment – Revenue		
United Kingdom	**26,477**	25,872
Rest of Europe	**8,956**	7,485
North America	**3,813**	3,282
Rest of the World	**3,911**	4,796
	43,157	41,435

The total assets of the business are allocated as follows:

United Kingdom £40,751,000 (2012: £39,827,000), Rest of Europe £70,000 (2012: £87,000), North America £489,000 (2012: £610,000), Rest of the World £nil (2012: £67,000).

Capital expenditure was made as follows:

United Kingdom £1,499,000 (2012:£1,230,000), Rest of Europe £nil (2012: £45,000).

5 Expenses by nature

	2013 £'000	2012 £'000
Changes in inventories of finished goods and work in progress	**1,119**	(745)
Raw materials used	**2,872**	2,876
Purchase of goods for resale	**6,918**	8,598
Employee benefit expense (note 7)	**15,844**	14,991
Other external charges	**11,397**	11,287
Depreciation and amortisation charges	**1,596**	1,592
Loss/(profit) on disposal of property, plant and equipment	**11**	(2)
Foreign exchange losses	**29**	8
Total cost of sales, distribution costs and administrative expenses	**39,786**	38,605

6 Average number of people employed

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

	2013 Number	2012 Number
By activity		
Production and warehousing	**339**	330
Sales and administration	**196**	190
	535	520

The Company had no employees (2012: none).

7 Employee benefit expense

	2013 £'000	2012 £'000
Staff costs (for the employees shown in note 6)		
Wages and salaries	**13,918**	13,191
Social security costs	**1,194**	1,166
Defined contribution pension cost (see note 23)	**475**	435
Other pension costs (see note 23)	**182**	184
Share options granted to directors and employees (see note 24)	**75**	15
	15,844	14,991

Directors' emoluments

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

Company

The Company did not make any payments to employees (2012: nil).

8 Finance income and costs

	2013 £'000	2012* £'000
Interest income on cash and cash equivalents	**92**	76
Finance income	**92**	76
Interest on defined benefit schemes (note 23)	**(197)**	(167)
Other interest	**(12)**	(40)
Finance costs	**(209)**	(207)
Net finance cost	**(117)**	(131)

* restated for the impact of IAS 19 (revised), see note 1

9 Auditors' remuneration

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

	2013 £'000	2012 £'000
Fees payable to the Company's auditor for the audit of the Company and consolidated financial statements (Company £2,000, 2012: £2,000)	**7**	7
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries	**67**	70
Other services	**–**	4
Total fees payable to the Group's auditors	**74**	81

10 Income tax expense

Group	2013 £'000	2012 £'000
Current tax – current year	**689**	706
– adjustment in respect of prior periods	**(94)**	(18)
	595	688
Deferred tax (note 22)		
Reversal of temporary differences	**14**	(117)
Income tax expense	**609**	571

During the year the main rate of corporation tax was reduced from 24% to 23%. This change was substantively enacted on 3 July 2012 and effective from 1 April 2013.

The Finance Act 2013 was substantively enacted on 17 July 2013 and includes legislation to reduce the main rate of Corporation Tax from 23% to 21% from 1 April 2014 and 20% from 1 April 2015. Deferred tax balances have been re-measured accordingly.

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:

	2013	2012
	£'000	£'000
Profit before income tax	**3,370**	2,717
Tax calculated at domestic tax rates applicable to profits in the respective countries	**783**	668
Expenses not deductible for tax purposes	**13**	13
Adjustment in respect of prior periods	**(94)**	(18)
Change in tax rate	**(149)**	(108)
Treatment of tax on share of profit of associate company	**35**	4
Other	**21**	12
Tax charge	**609**	571

The weighted average applicable tax rate was 23.25% (2012: 24.5%).

During the year a charge of £349,000 (2012: credit of £451,000) in relation to deferred tax arising from actuarial gains and losses on the Group's defined benefit pension obligation and a credit of £37,000 (2012: £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 10,939,808 (2012: 10,924,976) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

	2013	2012*
	Pence per share	Pence per share
Basic earnings per share (Based on earnings £2,761,000 (2012: £2,146,000))	**25.2**	19.6

* restated for the impact of IAS 19 (revised), see note 1

Diluted earnings per ordinary share is based on the profit after income tax and on 11,076,099 (2012: 11,030,731) ordinary shares, being the weighted average number of ordinary shares in issue during the year of 10,939,808 (2012: 10,924,976) increased by 136,291 (2012: 105,755) 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.

	2013	2012*
	Pence per share	Pence per share
Diluted basic earnings per share (Based on earnings £2,761,000 (2012: £2,146,000))	**24.9**	19.5

12 Dividends

The dividends paid in the year were as follows:

	2013	2012
Ordinary	**£'000**	£'000
Final dividend 2012 9.4p (Final dividend 2011: 9.2p) per 10p ordinary share	**1,027**	1,005
Interim 2013 4.9p per 10p ordinary share paid (Interim 2012: 4.8p)	**537**	524
	1,564	1,529

12 Dividends (continued)

The Directors now recommend payment of the following dividend:

Ordinary dividend:	2013 £'000	2012 £'000
Final dividend 2013 9.7p (2012: 9.4p) per 10p ordinary share	**1,062**	1,027

Dividends on treasury shares held by the Company are waived.

13 Property, plant and equipment

The Company has no property, plant and equipment (2012: 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 2012					
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
Year ended 31 December 2013					
Opening net book amount	10,334	3,100	514	214	14,162
Additions	9	794	252	82	1,137
Disposals	–	(51)	(61)	–	(112)
Transfers	(58)	58	–	–	–
Depreciation charge	(193)	(1,030)	(161)	(136)	(1,520)
Closing net book amount	**10,092**	**2,871**	**544**	**160**	**13,667**
At 31 December 2013					
Cost	12,395	18,754	924	2,738	34,811
Accumulated depreciation	(2,303)	(15,883)	(380)	(2,578)	(21,144)
Net book amount	**10,092**	**2,871**	**544**	**160**	**13,667**

14 Intangible assets

The Company has no intangible assets (2012: none). Details of these relating to the Group are as follows:

	Computer software £'000
Group	
At 1 January 2012	
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
Year ended 31 December 2013	
Opening net book amount	73
Additions	362
Disposals	–
Amortisation charge	(76)
Closing net book amount	**359**
At 31 December 2013	
Cost	1,263
Accumulated amortisation	(904)
Net book amount	**359**

15 Investment in associate

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Cost				
At 1 January	**1,277**	1,152	**355**	355
Share of profit	**131**	125	**–**	–
At 31 December	**1,408**	1,277	**355**	355
Impairment				
At 1 January	**413**	306	**–**	–
Impairment of investment in associate	**15**	107	**–**	–
At 31 December	**428**	413	**–**	–
Net book value				
Closing net book amount	**980**	864	**355**	355

The investment in associate represents a holding of 34.4% of the issued £1 ordinary shares of Furlong Mills Limited, a company registered in England, whose principal activity is that of a potter's miller.

	2013 £'000	2012 £'000
Share of associate's assets	**1,805**	1,668
Share of associate's liabilities	**(348)**	(340)
Share of associate's net assets	**1,457**	1,328

The total revenue of Furlong Mills Limited for its year ended 31 December 2013 was £7,040,000 (2012: £6,679,000) and profit before tax was £652,000 (2012: £445,000). During the year the Group purchased raw materials to a value of £2,007,000 (2012: £1,907,000) from Furlong Mills Limited. Amounts owed to Furlong Mills Limited at 31 December 2013 were £115,000 (2012: 107,000) (see note 21).

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% (2012: 5.6%).

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

	2013 £'000	2012 £'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
James Broadhurst & Sons Limited (formerly 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

Certain 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	Company
	Available for sale financial assets £'000	Other investments £'000
Fair value / Cost		
At 1 January and 31 December 2013	–	43
Impairment		
At 1 January and 31 December 2013	–	43
Fair value / Net book value		
At 1 January and 31 December 2013	–	–

The above represents 35.9% (2012: 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 (2012: none). Details of inventory relating to the Group are as follows:

	2013 £'000	2012 £'000
Raw materials	**57**	52
Work in progress	**506**	498
Finished goods	**8,206**	9,327
	8,769	9,877

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 £24,412,000 (2012: £23,511,000).

19 Trade and other receivables

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Trade receivables	**8,750**	7,480	**–**	–
Less: provision for impairment of trade receivables	**(487)**	(427)	**–**	–
Trade receivables – net	**8,263**	7,053	**–**	–
Other	**–**	7	**–**	–
Prepayments	**308**	273	**–**	–
Receivables from related parties (note 29)	**–**	–	**5,474**	5,629
	8,571	7,333	**5,474**	5,629
Less non-current portion: loans to related parties	**–**	–	**5,310**	5,470
Current portion	**8,571**	7,333	**164**	159

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 2013, trade receivables of £7,404,000 (2012: £6,521,000) were fully performing.

As of 31 December 2013, trade receivables of £758,000 (2012: £463,000) were past due but not impaired. The ageing of these receivables is as follows:

	2013 £'000	2012 £'000
Up to 3 months	**727**	436
3 to 6 months	**28**	21
Over 6 months	**3**	6
	758	463

19 Trade and other receivables (continued)

As of 31 December 2013 trade receivables with a gross value of £588,000 (2012: £496,000) were impaired and provided for. The amount of provision for 31 December 2013 was £487,000 (2012: £427,000). 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:

	2013 £'000	2012 £'000
Up to 3 months	**565**	388
3 to 6 months	**8**	16
Over 6 months	**15**	92
	588	496

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:

	2013 £'000	2012 £'000
At 1 January	**427**	304
Provision for receivables impairment	**104**	165
Written off during the year	**(44)**	(42)
At 31 December	**487**	427

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 £7,000 (2012: £nil) have been reviewed and an impairment provision of £7,000 (2012: £nil) established. The charge associated with the creation of this provision has been included in 'other external charges' in the income statement (note 5).

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

	2013 £'000	2012 £'000
Pounds	**7,088**	5,790
Euros	**1,001**	841
US dollar	**482**	656
Other	**–**	46
	8,571	7,333

During the year the Group realised losses of £29,000 (2012: £8,000) 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 £588,000 (2012: £1,191,000) and the sale of US dollars of £nil (2012: £245,000). These contracts are held at their fair value with a gain of £5,000 (2012: loss of £26,000) recognised in relation to the contracts outstanding at the year end.

Company

As of 31 December 2013, Company receivables of £nil (2012: £nil) were fully performing. Amounts receivable are repayable in accordance with agreed terms. No interest is chargeable.

Other receivables of £nil (2012: £nil) gross were impaired and provided for. The amount of this provision at 31 December 2013 was £nil (2012: £nil). Interest is chargeable on these receivables.

19 Trade and other receivables (continued)

Company (continued)

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

	2013	2012
	£'000	£'000
Pounds	**5,419**	5,579
US dollar	**55**	50
	5,474	5,629

20 Other financial assets

	Group		Company	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Other receivables	**1,000**	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	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Trade payables	**2,379**	1,801	**–**	–
Amounts due to related parties	**115**	107	**13**	13
Corporation tax	**–**	–	**–**	6
Social security and other taxes	**1,218**	1,069	**14**	8
Accrued expenses	**4,586**	4,155	**1**	1
	8,298	7,132	**28**	28

All the above liabilities mature within twelve months from 31 December 2013.

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:

	2013	2012
Group	**£'000**	£'000
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	**609**	1,114
- Deferred tax asset to be recovered within 12 months	**156**	171
	765	1,285
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	**(1,063)**	(1,250)
- Deferred tax liabilities to be recovered within 12 months	**(39)**	(46)
	(1,102)	(1,296)
Deferred tax liability (net)	**(337)**	(11)

22 Deferred income tax (continued)

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

Group	2013 £'000	2012* £'000
At 1 January	**(11)**	(579)
Income statement (charge)/credit (note 10)	**(14)**	117
Tax credits relating to components of comprehensive income	**37**	–
Tax (charged) / credited directly to equity (note 27)	**(349)**	451
At 31 December	**(337)**	(11)

* restated for the impact of IAS 19 (revised), see note 1

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	**Accelerate tax depreciation £'000**	**Land and buildings revaluation £'000**	**Total £'000**
At 1 January 2012	1,133	304	1,437
Credited to the income statement	(114)	(27)	(141)
At 31 December 2012	1,019	277	1,296
Credited to the income statement	(155)	(2)	(157)
Credited to other comprehensive income	–	(37)	(37)
At 31 December 2013	**864**	**238**	**1,102**

Deferred tax assets	**Accelerated tax depreciation £'000**	**Retirement benefit obligation* £'000**	**Other £'000**	**Total* £'000**
At 1 January 2012	(18)	(824)	(16)	(858)
(Credited)/charged to the income statement	(89)	113	–	24
Charged directly to equity	–	(451)	–	(451)
At 31 December 2012	(107)	(1,162)	(16)	(1,285)
(Credited)/charged to the income statement	(22)	230	(37)	171
Credited directly to equity	–	349	–	349
At 31 December 2013	**(129)**	**(583)**	**(53)**	**(765)**

* restated for the impact of IAS 19 (revised), see note 1

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

	2013 £'000	2012* £'000
Fair value reserves in shareholders' equity:		
Tax on re-measurement of defined pension benefits	**349**	(451)

* restated for the impact of IAS 19 (revised), see note 1

Deferred income tax of £2,000 (2012: £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.

22 Deferred income tax (continued)

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 £1,079,000 (2012: £1,295,000) in respect of capital losses amounting to £5,395,000 (2012: £5,395,000) that can be carried forward against future capital gains.

Company

Deferred tax assets of £8,000 (2012: £4,000) are recognised relating to short term timing differences.

23 Retirement benefit obligations

	2013	2012*
	£'000	£'000
Balance sheet obligations		
Pension benefits	**2,914**	5,054
Income statement charge		
Pension benefits	**657**	619
Finance costs	**197**	167

* restated for the impact of IAS 19 (revised), see note 1

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 £657,000 (2012: £619,000). Of this cost £nil (2012: £nil), related to the Churchill Group Retirement Benefit Scheme, £220,000 (2012: £179,000) was in respect of the Churchill China 1999 Pension Scheme, £251,000 (2012: £256,000) was in respect of the Churchill China 2006 Group Personal Pension Scheme and £4,000 (2012: nil) was in respect of UK Auto Enrolment schemes. 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 £23,000 (2012: £75,000).

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 £1,344,000 (2012: £672,000) was made in respect of the amortisation of past service liabilities. This includes an additional payment of £672,000 made in December 2013, accelerating the 2014 annual amortisation payment.

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 next triennial actuarial valuation is scheduled for commencement at 31 May 2014. Future amortisation payments will be assessed following completion of that valuation.

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

	2013	2012
	£'000	£'000
Present value of funded obligations	**39,241**	37,330
Fair value of plan assets	**(36,327)**	(32,276)
Liability in balance sheet	**2,914**	5,054

23 Retirement benefit obligations (continued)

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

	2013 £'000	2012* £'000
At 1 January	**37,330**	33,058
Interest cost	**1,658**	1,620
Experience losses on liabilities	**88**	590
Re-measurements from change in financial assumptions	**1,123**	2,997
Benefits paid	**(958)**	(935)
At 31 December	**39,241**	37,330

* restated for the impact of IAS 19 (revised), see note 1

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

	2013 £'000	2012* £'000
At 1 January	**32,276**	29,763
Expected return on plan assets	**1,461**	1,453
Re-measurement of return on plan assets excluding amounts included in interest expense	**2,204**	1,323
Employer contributions	**1,344**	672
Benefits paid	**(958)**	(935)
At 31 December	**36,327**	32,276

* restated for the impact of IAS 19 (revised), see note 1

Plan assets are comprised as follows:

	2013		2012	
	£'000		£'000	
Equity investment funds	**18,464**	**51%**	14,690	45%
Absolute return funds	**6,449**	**18%**	6,035	19%
Other investment funds	**1,402**	**4%**	1,363	4%
Debt investments	**8,441**	**23%**	9,373	29%
Cash and cash equivalents	**1,571**	**4%**	815	3%
	36,327		32,276	

The expected return on plan assets under IAS 19 (revised) is calculated at the same rate used to discount scheme liabilities

The amounts recognised in the income statement are as follows:

	2013 £'000	2012* £'000
Interest cost on defined benefit plans	**197**	167

* restated for the impact of IAS 19 (revised), see note 1

The actual return on plan assets was a gain of £3,747,000 (2012: gain of £2,776,000).

23 Retirement benefit obligations (continued)

	2013 £'000	2012* £'000	2011 £'000	2010 £'000	2009 £'000
At 31 December					
Present value of funded obligations	**39,241**	37,330	33,058	34,898	34,550
Fair value of plan assets	**(36,327)**	(32,276)	(29,763)	(30,228)	(26,841)
Liability in balance sheet	**2,914**	5,054	3,295	4,670	7,709
Experience adjustments on scheme assets:					
Amount	**2,204**	1,323	(2,074)	1,813	2,689
Experience adjustments on scheme liabilities:					
Amount	**(88)**	(590)	403	835	(414)

* restated for the impact of IAS 19 (revised) see note 1

Re-measurement gains and losses

Re-measurement gains of £993,000 (2012 restated: losses of £2,264,000) 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 £9,966,000 (2012 restated: £10,959,000).

The principal actuarial assumptions used were as follows:

Pension benefits

	2013 % per annum	2012 % per annum
Discount rate	**4.6%**	4.5%
Inflation rate – RPI	**3.5%**	3.0%
– CPI	**2.6%**	2.3%
Rate of increase of pensions in payment	**2.6%**	2.2%
Rate of increase of deferred pensions	**2.6%**	2.3%

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:

	2013 Number	2012 Number
Male	**20.5**	20.4
Female	**23.2**	23.1

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

	2013 Number	2012 Number
Male	**22.8**	22.7
Female	**25.4**	25.3

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 0.1% increase in the discount rate to 4.7% would be to reduce scheme liabilities by £727,000 (1.9%).

The effect of a 0.1% decrease in the discount rate to 4.5% would be to increase scheme liabilities by £720,000 (1.9%).

The effect of a 0.1% increase in RPI inflation to 3.6% and CPI inflation to 2.7% would increase scheme liabilities by £498,000 (1.3%).

The effect of a 0.1% decrease in RPI inflation to 3.4% and CPI inflation to 2.5% would reduce scheme liabilities by £488,000 (1.2%).

The effect of a 1 year increase to life expectancy would increase scheme liabilities by £1,071,000 (2.7%). The effect of a 1 year reduction in life expectancy would be to reduce scheme liabilities by £1,053,000 (2.7%).

The amount of net deficit on retirement benefit schemes is also dependant on the valuation and investment performance of scheme assets.

24 Issued share capital and premium

Group and Company	Number of shares 000s	Ordinary shares £'000	Share premium £'000
At 31 December 2012 and 31 December 2013	**10,958**	**1,096**	**2,348**

The total authorised number of ordinary shares is 14,300,000 (2012: 14,300,000) with a par value of 10p (2012: 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)

Share option schemes (continued)

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

	Long term incentive plan	**Long term incentive plan**	**Executive share option scheme**
Grant date	**3 May 2013**	**21 June 2012**	**30 April 2004**
Share price at grant date	345p	315p	208p
Exercise price	10p	10p	208p
Number of employees	2	2	12
Shares under option	43,942	96,254	110,000
Vesting period (years)	3	3	3
Expected volatility	15%	20%	25%
Option life (years)	10	10	10
Expected life (years)	3	3	5
Risk free rate	1.3%	1.6%	4.8%
Expected dividends expressed as a dividend yield	4.1%	4.9%	5.2%
Fair value per option	266p	236p	24p

The following options exercisable over ordinary shares were outstanding at 31 December 2013:

Number of shares	**2013**	2012	**Exercise price**	**Date from which exercisable**	**Expiry date**
The unapproved Executive share option scheme	**–**	36,000	208p	April 2007	April 2014
The Long Term Incentive Plan	**140,196**	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 2013 is set out below.

	2013 Number '000	**2013 Weighted average exercise price**	2012 Number '000	2012 Weighted Average exercise price
Outstanding at 1 January	**132,254**	**63.9p**	36,000	208.0p
Granted	**43,942**	**10.0p**	96,254	10.0p
Exercised	**(36,000)**	**208.0p**	–	–
Outstanding at 31 December	**140,196**	**10.0p**	132,254	63.9p
Exercisable at 31 December	**–**	**–**	36,000	208.0p

There were 43,942 share options granted during the year (2012: 96,254).

24 Issued share capital and premium (continued)

	2013 Weighted average exercise price	2013 Number '000	2013 Weighted average remaining life (expected)	2013 Weighted average remaining life (con-tractual)	2012 Weighted average exercise price	2012 Number '000	2012 Weighted average remaining life (expected)	2012 Weighted average remaining life (con-tractual)
0 – 50p	**10p**	**140,196**	**1.8**	**8.8**	10p	96,254	2.5	9.5
200p - 250p	**–**	**–**	**–**	**–**	208p	36,000	0.0	1.3

The weighted average share price for options exercised in the period was 208.0p (2012: nil p). The total charge during the year for employee share based payment plans was £75,000 (2012: £15,000) 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
Purchase of own shares	52
Re-issue of shares	(75)
Transfer to retained earnings	(25)
As at 31 December 2013	41

During the year the Group re-purchased 15,000 (2012: nil) 10p ordinary shares and re-issued 36,000 (2012: nil) under employee share option schemes. The Group currently holds 12,000 (2012: 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 2012	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
Depreciation transfer – gross	(12)	–	–	–	(12)
Depreciation transfer – tax	2	–	–	–	2
Change in deferred tax rate	37	–	–	–	37
Share based payment	–	–	75	–	75
Currency translation	–	(5)	–	–	(5)
Balance at 31 December 2013	**953**	**12**	**114**	**253**	**1,332**

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 £114,000 (2012: £39,000) represent provision for share based payment as shown in the above table.

27 Retained earnings

	Group* £'000	Company £'000
At 1 January 2012	23,082	6,581
Profit for the year	2,146	13
Dividends paid in 2012	(1,529)	(1,529)
Depreciation transfer on land and buildings net of tax	(15)	–
Actuarial losses on retirement benefit obligations net of tax	(1,813)	–
At 31 December 2012	21,871	5,065
At 1 January 2013	21,871	5,065
Profit for the year	2,761	1,432
Dividends paid in 2013	(1,564)	(1,564)
Depreciation transfer on land and buildings net of tax	10	–
Actuarial gains on retirement benefit obligations net of tax	644	–
Transfer from Treasury Shares (note 25)	(25)	(25)
At 31 December 2013	**23,697**	**4,908**

* restated for the impact of IAS 19 (revised) see note 1

28 Commitments

Capital commitments

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

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Property, plant and equipment	**734**	666	**–**	–
Intangible assets: Computer software	**–**	45	**–**	–
	734	711	**–**	–

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	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Payments under operating leases charged against income during the year	**64**	37	**–**	–
Future aggregate minimum commitments under non–cancellable operating leases:				
No later than one year	**63**	47	**–**	–
Later than one year and no later than five years	**162**	214	**–**	–

29 Related party transactions

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

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

Company

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

	2013	2012
	£'000	£'000
Subsidiaries		
Management charge to Churchill China, Inc	**6**	6
Interest received from Churchill China (UK) Limited	**3**	4
Dividend received from Churchill China (UK) Limited	**1,500**	–
Loans repaid by Churchill China (UK) Limited	**(161)**	(1,527)
Loans outstanding (mainly from Churchill China (UK) Limited)	**5,474**	5,629

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 2013 and 2012, as disclosed in note 17.

Five year financial record

	2009 Restated* £'000	2010 Restated* £'000	2011 Restated* £'000	2012 Restated* £'000	**2013 £'000**
Revenue	41,705	43,746	42,296	41,435	**43,157**
Operating profit	2,288	2,287	2,713	2,830	**3,371**
Share of results of associate net of impairment	(18)	162	(41)	18	**116**
Finance cost	(7)	(418)	(234)	(131)	**(117)**
Profit before taxation	2,263	2,031	2,438	2,717	**3,370**
Income tax expense	(567)	(504)	(530)	(571)	**(609)**
Profit after taxation	1,696	1,527	1,908	2,146	**2,761**
Dividends	1,526	1,529	1,530	1,529	**1,564**
Net assets employed	24,536	26,569	27,653	26,461	**28,432**
Ratios					
Operating margin	5.5%	5.2%	6.4%	6.8%	**7.8%**
Earnings before interest, tax, depreciation and amortisation (£'000)	3,684	3,817	4,672	4,422	**4,967**
Basic earnings per share (p)	15.6	14.0	17.5	19.6	**25.2**

* Historic figures have been re-stated to reflect the introduction of IAS 19 (revised) re post employment pension benefits during 2013

Notice is hereby given that the Annual General Meeting of Churchill China plc will be held at No.1, Marlborough Way, Tunstall, Stoke-on-Trent on Thursday 15 May 2014 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 2013 be received.
2. That a final dividend of 9.7p on each ordinary share be declared in respect of the year ended 31 December 2013.
3. That B M Hynes be appointed as a Director.
4. That D J S Taylor be re-elected as a Director.
5. That A J McWalter be re-elected as a Director.
6. That the Auditors, PricewaterhouseCoopers LLP, be re-appointed and that the Directors be authorised to fix their remuneration for the year ending 31 December 2014.
7. That the Annual Report on Remuneration for the year ended 31 December 2013 be approved.

Special Business

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

8. 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 14 August 2015, 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.

9. 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 1,094,597;

   (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.

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

By Order of the Board

D J S Taylor
Company Secretary

Dated 17 April 2014

Registered Office
No.1, Marlborough Way
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 cost 8p per minute; plus networks extras. If calling from overseas, please call +44 (0)121 415 7047. Lines are open 8.30am – 5.30pm, 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 13 May 2014. 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 by 6pm on 13 May 2014 (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 17 April 2014 (being the last practicable date prior to publication of this Notice), the Company's total issued equity share capital consists of 10,957,976 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.churchill1795.com

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. Resolution 3: B M Hynes has been appointed to the Board since the date of the last AGM and, in accordance with the Articles of Association, must retire and be elected at the next AGM. The basis upon which the Board believes that he should be elected is that he will bring significant and valuable experience to the Board from his previous executive roles and will allow the Company to satisfy obligations under the UK Corporate Governance Code in relation to the composition and balance of the Board.

2. Resolutions 4 and 5: 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. D J S Taylor and A J McWalter are retiring by rotation and resolutions 4 and 5 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.

3. Resolution 7: this is a resolution to approve the Annual Report on Directors' Remuneration on pages 31 to 35. As an AIM listed company, the Company is not required to comply with all of the requirements in this respect under The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Company has chosen to disclose its Remuneration Policy on pages 27 to 30 although the Policy is not the subject matter of Resolution 7.

4. Resolution 8: 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 17 April 2014 (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 0.9% 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 14 August 2015, whichever is the earlier.

5. Resolution 9 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 1,094,597 ordinary shares (representing approximately 10 per cent of the issued share capital excluding treasury shares as at 17 April 2014 (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.

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

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China plc

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