



CHURCHiLL[®]

China plc



Annual Report
2015



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...



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 a 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.



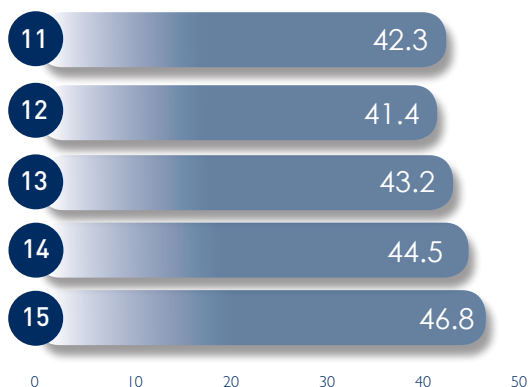
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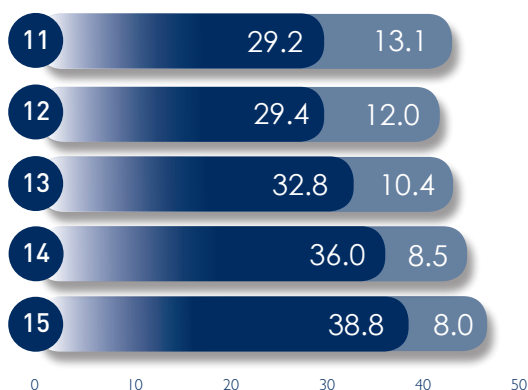
Five Year Performance

Revenue (£m)



Group revenues up 5% to £46.8m

Segment Revenue (£m)

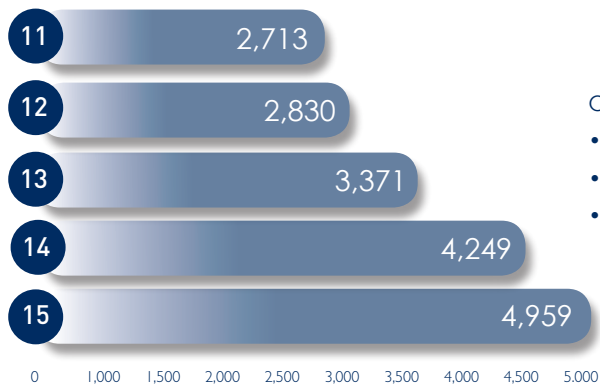


Strong growth in Hospitality revenues up, 8%

- Good performance across all market sectors
- Hospitality revenues represent 83% of overall Group revenues

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

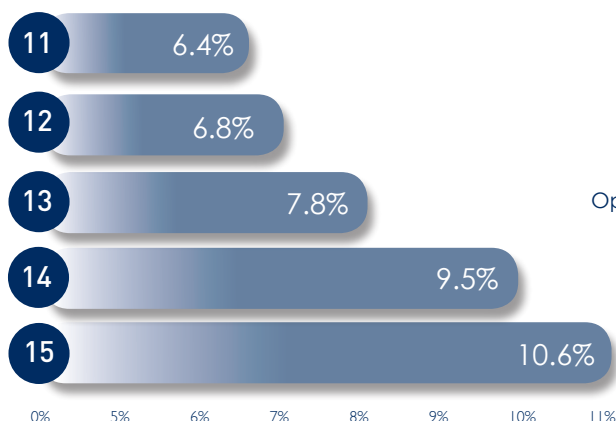
Operating Profit (£'000)



Operating Profit up 16% to £5.0m

- Successful new product introductions
- Increased sales of value added product
- Improved factory efficiency

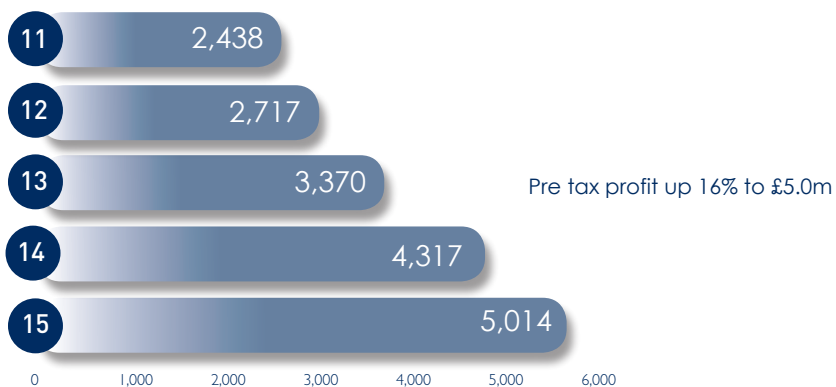
Operating Margin (%)



Operating margin increased to 10.6%



Pre Tax Profit (£'000)



Capital Expenditure (£'000)



Other Highlights

Net cash and deposit balances £11.8m

Earnings per Share up 20%

Dividends declared up 14%

Total shareholder return 33%





Results

	2015	2014
	£'000	£'000
Revenue	46,829	44,518
Operating profit	4,959	4,249
Share of results of associate company	135	116
Net finance cost	(80)	(48)
Profit before income tax	5,014	4,317
Dividends paid	1,816	1,619

Key Ratios

Operating margin	10.6%	9.5%
Earning before interest, tax, depreciation and amortisation (£'000)	6,454	5,876
Basic earnings per share	37.3p	31.2p
Diluted basic earnings per share	36.9p	30.8p
Dividends paid per share	16.6p	14.8p



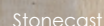
Plant Pots



Melamine Bowls



Evolve



05



“Our performance has been robust with continued progress against our strategic objectives.”

INTRODUCTION

I am happy to report that Churchill has once again delivered a strong set of trading results with the good performance in the first half of the year being followed by further growth in the second half. Our performance has been robust with continued progress against our strategic objectives, despite some adverse conditions. Increased revenues have been achieved in our target markets and we have benefitted from returns on the long term investment made across our business. The Hospitality business again recorded increased revenues in all of its markets.



“Increased revenues have been achieved in our target markets”





FINANCIAL REVIEW

Total revenues increased by 5% to £46.8m (2014: £44.5m).

Gross margins remained at similar levels to 2014, with the adverse effect of a weaker Euro being offset by improved profitability on added value products. On a constant currency basis revenues would have been £1.0m higher had exchange rates remained at 2014 levels. Operating profits were adversely impacted by £0.7m on the same basis

Operating profit increased by 16% to £5.0m (2014: £4.2m). Operating margins improved to 10.6% (2014: 9.5%) due to our continued focus on developing profitable business across all our markets and careful management of our cost base. Earnings before interest, tax, depreciation and amortisation increased by 10% to £6.5m (2014: £5.9m).

Profit before tax rose by 16% to £5.0m (2014: £4.3m), largely a result of our improved operating performance.

Earnings per share improved by 20% to 37.3p (2014: 31.2p). The tax charge on profits was at a lower than standard rate largely reflecting changes to forward deferred tax rates.

We have once again generated strong operating cash flows. Operating cash generation was £5.3m (2014: £6.9m). Working capital requirements increased given the need to build inventory in support of our service promise together with increased activity levels. Investment in capital expenditure reduced to £1.2m (2014: £2.0m). We expect investment spend to rise in 2016 as we complete new buildings and install additional capability to meet increased demand. At the year end, net cash and deposit balances had risen by £1.3m to £11.8m (2014: £10.5m).

Dividend and Shareholder Return

The Board is recommending a 15% increase in the final dividend to 12.7p per share (2014: 11.0p), giving a total of 18.3p for the year (2014: 16.1p). We are pleased that the growth in profitability and continued strong cash generation in the year has allowed us to again raise the dividend at an increased rate. If approved, the final dividend will be paid on 26 May 2016 to shareholders on the register on 29 April 2016.

Total shareholder returns have again been very good, reflecting both dividend growth and our improved performance. Overall returns were 33% (2014: 42%) during the year.



"We expect investment spend to rise in 2016."





“Innovation across our product range has remained a significant contributor to our success.”

HOSPITALITY

Total sales to our Hospitality customers increased by £2.8m (8%) and reached a record of £38.8m(2014: £36.0m). Contribution to Group operating profits rose by 9% to £7.2m from £6.6m.

We have continued to make progress in the UK where we enjoy a market-leading position. We have delivered a satisfactory level of growth against strong comparative figures which enjoyed the benefit of substantial new installation business.

Export markets, in Europe and increasingly further afield, remain our key growth target. Export revenues increased by 15% in 2015, following on from 16% growth recorded in 2014, marking a third consecutive year of strong increase. Europe has moved forward well, with the adverse exchange rate effect more than offset by the benefits of investment in sales and marketing and a strong performance from new products. Our competitive position in Europe continues to benefit from Anti Dumping Duties on Chinese ceramics. We are pleased with our performance in other export markets with strong growth in most areas. Notable progress has been achieved in Australasia, Central and South America and in the United States, where the developments seen in 2014 have continued this year. Again investment in sales, marketing and new product introductions has been central to this growth.

The strength of our established relationships with end users, distributors and agents in the UK and worldwide continues to be of great value to the business.

Innovation across our product range has remained a significant contributor to our success in the year. Our hand crafted Stonecast range, supported by unmatched service levels, has been an outstanding product, with range extensions building on the core ranges introduced last year. Other new products have also performed well and the initial response to our 2016 introductions has been good.



“Export markets remain our key growth target.”





“Our performance has been robust with continued progress against our strategic objectives.”

RETAIL

Retail has performed well, slightly ahead of our expectations, making further progress against the strategic objectives we set. Whilst revenues reduced from £8.5m to £8.0m as we continued to exit from certain lower margin license business, the impact of lower sales on profit levels has been minimal as we have increased the proportion of Churchill branded manufactured product and retained control of costs. Contribution to Group profit was maintained at £0.9m.

We benefit from our long heritage in Retail. Our product range remains substantial. Customers continue to value the traditional benefits of well designed product made in Stoke on Trent whilst also appreciating the variety that our access to third party manufacturers provides.

The repositioning of Retail has created a business providing a clear financial contribution to our overall operations. Additionally it continues to support the long term development of Churchill in less tangible ways. The capacity created by the commissioning of a new glost (second firing) kiln during the year has been partially utilised by Retail allowing us to optimise output levels. Retail also continues to allow us to develop skills in a highly competitive environment.



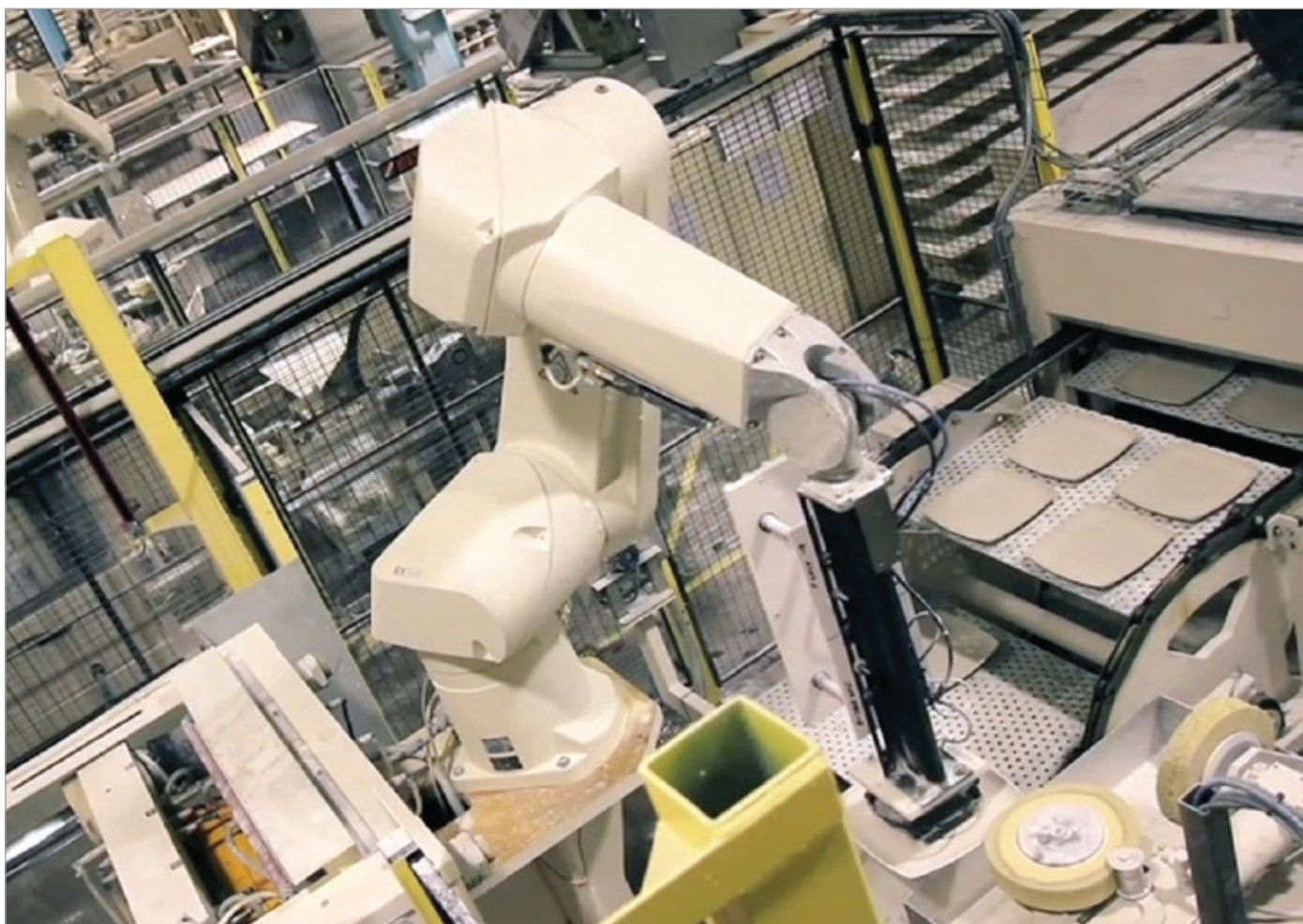


“The positive challenges of continued growth have again been met.”

FULFILMENT

The positive challenges of continued growth have again been met by our manufacturing and logistics teams. We have increased our level of product and process innovation, achieved volume growth and commissioned several major capital projects, all of which place increased demands on the fulfilment side of our business. The progress made in both revenues and profitability, without any impact on the level of customer service, supports the conclusion that we have met those challenges well.

Capital expenditure on manufacturing projects during the year totalled £1.1m, a little below our earlier expectations. We successfully completed the commissioning of a new kiln in January 2015 and have installed further added value product forming capacity. We expect 2016 to show increased expenditure as new manufacturing space currently under construction is completed and further kiln and forming capacity is installed. This increase in capacity is planned to support the growth opportunities we see in several markets for our UK made product.





"Our success in 2015 is again attributable to our workforce."

PEOPLE

Our success in 2015 is again attributable to our workforce. They continue to demonstrate admirable skill and commitment to meet the challenges raised through our operations and creating the forward opportunities and capabilities necessary for future progress. Once again we wish to thank our staff for their efforts.

We have begun to see the benefits from our increased investment in training and staff development at all levels across our business. We have made good progress against our targets of improving skills and providing more opportunity for our workforce. These initiatives have been supplemented by recruitment of additional skills where necessary to support our plans.

Our Board continues to evolve. We were pleased to welcome James Roper to the Board in July 2015, increasing the representation of Sales and Marketing at senior level. Jonathan Morgan, who has served as a non Executive director for nine years, will retire at the next Annual General Meeting. Jonathan has provided support and guidance for the Company through periods of major change and his contribution has always been of great value. All his colleagues wish him well for the future. The process of recruitment of a successor to Jonathan is well underway.





“We will continue building a business for the long term based on excellence in design, quality and customer service.”

PROSPECTS

Throughout 2015 we have continued to make good progress against our long term objectives despite some significant headwinds from adverse currency movements and other economic changes.

Our markets continue to develop. We believe we have the ability to secure further increases in revenue, particularly from export markets, although we remain aware of the potential wider political and economic uncertainties which may impact on our performance.

Our business plan continues to evolve steadily with clear targets within an established strategic framework. We will continue building a business for the long term based on excellence in design, quality and customer service, supported by a well invested manufacturing operation and strong balance sheet.

The current year has started well and the Board looks forward with confidence.

Alan McWalter

Chairman

23 March 2016



Buffetscape



The Directors present their Strategic Report for the Group for the year ended 31 December 2015.

A review of the operations of the Group during the year and its future prospects are given in the Chairman's Statement on page 6 and in the following pages.

Principal activity and business environment

The Group serves hospitality and retail customers in many different geographic areas around the world, supplying a range of tabletop products, principally ceramic tableware. The majority of our revenues are generated from production within our UK manufacturing plant, supplemented by products sourced from third party suppliers overseas. The majority of our sales are to the UK market, but we also enjoy significant revenues from Europe and North America.

Hospitality markets are generally recognised as being long term markets linked to economic growth and increased levels of leisure spending by consumers. Our product is a high quality, engineered ceramic designed to meet exacting design, performance and technical standards within the hospitality industry. It is generally sold to end users through well developed distribution networks with a high service level requirement. A significant proportion of sales each year will be repeat or replacement sales to existing customers. Hospitality markets benefit from barriers to entry given the premium customers place 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 European hospitality sectors as the economic environment has improved. Our competitive position has benefitted from Anti Dumping Duties imposed on the import of Chinese ceramics to the EU. We have continued our programme of investment in both market development and capacity expansion. Forecasts for the UK and our major export markets suggest that economic growth will continue in 2016, although the benefits of this may be offset by other macro-economic changes.

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.

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. Our customers value our technical ability, our service and our commitment to high quality design and innovation.

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

The Group operates principally from one site in Stoke on Trent, England, a leading centre 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 long term investment to improve our business's efficiency and effectiveness. We believe we operate a high quality, flexible and cost effective manufacturing process which allows us to respond quickly to customer needs. We also use 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, through alignment of our cost base with profit opportunities and a focus on cash generation.

Our long term aim is to build our presence 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 continue to expect short to medium term growth to be weighted towards export markets.

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 and in improving our ability to offer added value to our customers. This involves investment in new product development as well as capital expenditure on productive capacity. We expect to invest further in our UK manufacturing facility in the future.

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 products that are 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 and the fulfilment of customer expectations is critical to the maintenance of good relationships. 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.

Performance

A more detailed report on our performance is contained in the Chairman's Statement on page 6.

Hospitality markets have generally performed well. Extensions to our product range, distribution network and increased sales and marketing resource have all contributed to strong growth in revenues.

The continued popularity of dining out as a leisure activity in the UK and further investment by pub, restaurant and hotel owners remain major drivers of demand for our products. We have seen a further return on our investment in the development of European markets where we have a relatively small market share. We have increased our investment in building our business in North America, the Middle East, Australasia and Central and Latin America. These markets are at an early stage of development and our target is to build them steadily to provide a balance to our larger UK and European operations.

Revenues from Retail markets have decreased, following our decision to allocate an increased proportion of our manufacturing capacity to Hospitality production and to scale back our offering of licensed in product. We continue to prioritise profit rather than scale in our Retail business.

The maintenance of EU duties on Chinese imports should continue to be positive for all UK ceramics manufacturers. Labour and material costs have risen again at slightly higher rates than underlying inflation. 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.

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 and economic 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 revenues and the costs of operation denominated in overseas currencies. Our non sterling receipts are principally denominated in Euros and US dollars. Against US dollar receipts we have a partial natural offset due to our overseas purchasing. We would normally expect to have more significant 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 also review currency rate changes as part of our pricing policy.

Manufacturing and supply chain

Approximately 75% of our sales are manufactured in our UK 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 all or parts of our factory for an extended period. This risk is controlled through management procedures, appropriate investment and ultimately insurance arrangements.

We have augmented our UK production facilities with a range of third party suppliers. 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.

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.

People

Our business depends upon the skills and knowledge of a number of people at all levels within our operation and within supplier companies. Certain of these skills and experience may only be acquired through extensive training and experience and it is possible that they may not be available through the recruitment of new employees in the future. We aim to limit this risk through the establishment of appropriate manpower and succession planning, identifying training, development and recruitment needs.

Regulation, compliance and taxation

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.

The markets in which the Group operates are generally subject to various taxes, tariffs and duties levied by national and pan-national governments. These taxes, tariffs and duties and particularly changes in them may affect the Group's operations and competitive position both positively and negatively.

The imposition of Anti Dumping Duty by the EU on imports from China has generally been positive to the Group's trading operations. This Duty is due for review in November 2017 and its application may change following that date.

The Group assesses and meets its obligations under taxes, tariffs and duties in the markets in which it operates and reflects potential changes in them within strategic and operational plans.



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 2015:	£46.8m (2014: £44.5m)
Hospitality	£38.8m (2014: £36.0m)
Retail	£8.0m (2014: £8.5m)
Revenue growth	5% (2014: 3%)
Hospitality	8% (2014: 10%)
Retail	– 6% (2014: -18%)

Sales to UK hospitality customers performed strongly, recording growth of 3% against a strong comparative. Export sales rose by a higher figure, 15%, largely as our European business again delivered returns on the investments we have made in the market. Retail sales were lower, reflecting lower sales of licensed in products and our focus on profit rather than scale in this market.

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 2015: £8.4m (2014: £8.3m)

The rise in inventory holding levels reflects increased stock holdings to support the strong trading levels experienced in Hospitality markets offset by a further reduction of stock holdings associated with the Retail business.

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 2015: £5.0m (2014: £4.3m)

Group operating profit increased by 16.7%. Performance in our Hospitality division was significantly stronger as high revenue levels, particularly in export markets, offset the cost of additional revenue investment in future development. Retail profits reflected reduced sales and some cost savings. Central costs fell with lower remuneration costs. Operating margins increased satisfactorily to 10.6% (2014: 9.5%) 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 2015: £5.0m (2014: £4.3m)

Profit before taxation moved forward by 16.1% mainly as a result of the strong increase in operating profits. The notional interest charge associated with our pension scheme increased. Our share of the profit of our associate company Furlong Mills also increased.

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 2015: £5.3m (2014: £6.9m)

Percentage of operating cash generation to operating profit for the year: 106% (2014: 162%).

Three year average percentage of operating cash generation to operating profit: 134% (2014: 143%).

Operating cash generation was maintained at satisfactory levels. The increased level of operating profit was offset by a rise in working capital requirement to support increased trading levels.



Future outlook

The Board believes that 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 a continued reduction in revenues, although this will be mitigated by stringent cost controls. The Group's 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 maintain 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. Our progress in export markets over the last five years provides us with an opportunity to grow future revenues steadily across a number of geographic sectors. It is therefore believed that there will be further opportunities for sustained growth in the medium and long term. Our market and product development strategies are well resourced and have generated a number of new options for us to address.

We believe that we can continue to generate an acceptable return for shareholders from our reduced position in Retail markets. Our relatively small size and increased focus on profitable market sectors should continue to generate new opportunities.

We remain mindful of heightened political and economic risks in certain markets.

We continue to approach all our markets with a view to long term, investment led, development.

On behalf of the Board

D J S Taylor

Company Secretary

23 March 2016



The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2015.

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 the Annual Report and the Company number is 02709505.

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 2015 and 31 December 2014:

	2015 £'000	2014 £'000
Ordinary dividend:		
Final dividend 2014 11.0p (Final dividend 2013: 9.7p) per 10p ordinary share	1,200	1,062
Interim dividend 2014: 5.1p (2013: 4.9p) per 10p ordinary share	616	557
	<u>1,816</u>	<u>1,619</u>

The Directors now recommend payment of the following dividend:

Ordinary dividend:

Final dividend 2015 12.7p (2014: 11.0p) per 10p ordinary share	<u>1,395</u>	<u>1,200</u>
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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)
D M O'Connor
D J S Taylor
J A Roper (appointed 24 July 2015)
A D Roper*
J W Morgan*
B M Hynes *

* Non Executive

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

The biographical details of the Directors are as follows:

David O'Connor, Chief Executive Officer has worked for Churchill for 25 years in a number of production, operations, marketing and senior management roles. He has extensive experience within the ceramics industry and joined the Board in 1999. He was appointed Chief Executive Officer in August 2014, having previously served as Chief Operating Officer since 2010. He has responsibility for the development of Group strategy and for operational performance and development.



David Taylor, Finance Director and Company Secretary has worked for the Group for 24 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.

James Roper, Sales and Marketing Director joined Churchill in 2001 and over the last 15 years has worked in a number of sales and marketing roles across the Group. He was appointed to the Board in 2015.

Alan McWalter, Non Executive Chairman 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.

Andrew Roper, Non Executive Director has worked for the Company since 1973. He was appointed to his present role in 2014 following his retirement from his executive role as Chief Executive Officer.

Jonathan Morgan, Non Executive Director has many years of experience in investment management working with funds investing in small and medium sized growth companies. He joined the Board in 2007.

Brendan Hynes, Non Executive Director, is currently Chairman of Swallowfield plc alongside other directorships. He was previously Chief Executive Officer of Nichols plc from 2007 to 2013. He joined the Board in 2013.

Ethical standards and trading

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.

Churchill China sources materials and products from a range of national and international suppliers. We have an ethical trading policy and take steps, including factory visits and audits, to ensure that our standards are implemented within our supply chain and that local legislation and regulations are complied with.

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. We work closely with the union representing our employee's interest to develop a relationship that will benefit our employees and meet our business needs.

Our training and development programme has been formalised with the appointment of a dedicated manager in this area. We have continued to work with our local further educational colleges and training organisations to provide functional and vocational training for employees. Our manufacturing based apprenticeship scheme targets the development of important ceramic skills within our team. A number of employees are pursuing external qualifications in various areas. Our multi-skilling training programmes, particularly for supervisory and engineering employees, will help to enable us to meet our strategic manufacturing objectives. Our long-term commitment to the training and development of 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 eleven 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 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. We have a published health and safety policy.

In practice, our approach to health and safety is embedded in our day to day working practices. 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 assess 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 thousands 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.

During the year we have been audited under the Governments Energy Savings Opportunity Scheme (ESOS). Whilst this has generated no significant new initiatives, we have identified a number of areas for renewed focus and continue to target reductions in our energy usage.

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.

We actively engage with our community through contact with our neighbours and local schools offering work experience, and through local and national charity initiatives. We have continued to support a number of community and charitable initiatives, principally the Douglas MacMillan Hospice.

Research and development

The introduction of new and innovative products, designs and process technology 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 £5.3m of cash flow from operating activities and after payment of corporate taxation of £0.9m, invested £1.2m net in capital projects and returned £1.9m to shareholders by way of dividend and buy back of shares.



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. A proportion of net currency exposures are generally covered up to twelvemonths 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 10 March 2016 exceeded 3% of the Company's issued share capital:

Shareholder	Number of ordinary shares	Percentage
Investec Wealth and Investment	1,162,996	10.6%
S Roper	1,073,000	9.8%
Henderson Global Investors Limited	790,865	7.2%
Rathbone Nominees Limited	713,408	6.5%
E S & SJ Roper	572,265	5.2%
Hargreave Hale Limited	560,000	5.1%
M J & G Roper	441,065	4.0%
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 48,000 10p ordinary shares. During the year the Company repurchased 20,000 (2014: 36,000) 10p ordinary shares at a total cost of £134,000 (2014: £183,000) in order to improve overall shareholder return. 46,100 (2014: nil) shares were re-issued in respect of employee share option schemes for a total consideration of £5,000 (2014: £nil). The Company retains a power, subject to the fulfilment of certain conditions and as approved at the 2015 Annual General Meeting, for the further purchase of its own shares.

Political contributions

The Group made no political contributions (2014: £nil) during the year.



Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report, the Director's Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and have been prepared in accordance with the Companies Act 2006. 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 and the Director's Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. 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.

The Directors consider the the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Directors, Secretary and Advisers confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

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
23 March 2016



Annual Statement

This section of the Remuneration Report is not audited.

The Remuneration Committee considered a number of matters during the year. Basic pay levels were assessed to ensure that the changes in the experience and performance of job holders was reflected in salary levels; the operation and scope of the annual bonus scheme was reviewed to ensure that it provided adequate incentive to executive Directors without disproportionate cost to shareholders and the performance levels for vesting of awards under the Long Term Incentive Plan ('LTIP') were considered. In addition the Committee considered the salary and wider remuneration package in relation to a newly appointed Director. In each case the Committee was conscious of the need to clearly align Executive Directors' remuneration packages with shareholders interests.

Details of the outcome of this work are set out below and later in the Annual Report on Remuneration.

The backdrop to the Remuneration Report this year is that the Group has continued to progress well. Performance in 2015 was again strong, despite a number of external pressures, with operating and pre tax profits well ahead of last year. We have made progress in the development and implementation of our strategy, improving our market position in a number of areas and making further investments in our manufacturing operations. In financial terms we grew operating and pre tax profit by 16% and cash and deposit balances have increased by £1.3m. We have increased the dividend declared in relation to the year by 14%. Total shareholder return over the year rose substantially by 33%, or almost £20m in absolute terms. These increases continue the established trend of improved profitability and value creation over the last five years.

Given this strong performance, we are pleased to report that annual profit related bonus payments were again at a high level. The challenging targets under our LTIP have also been achieved. Overall Board remuneration fell by 10% with the fall in remuneration attributable to awards under the LTIP accounting for the majority of this change.

The LTIP grant made in 2013, tested against performance in the three years to 31 December 2015, was at a reduced absolute level compared to the 2012 grant which vested last year. Over the period to 2015 adjusted earnings per share have risen at an annualised rate of 22%, which has resulted in vesting at the maximum level. On legal vesting in May 2016, Directors will be required to retain the shares awarded (after payment of income taxes due) towards their shareholding requirements.

Further LTIP awards were made in May 2015 to two of the Executive Directors. The performance condition attaching to vesting of these shares was strengthened relative to prior awards to require more challenging earnings per share growth levels.

There has been no substantial change to our Remuneration Policy over the year.

Whilst as an AIM listed Company we are not required to satisfy the Directors Remuneration Report ('DRR') guidelines we continue to provide information on certain requirements of the Regulations to reflect good practice where this is in the interests of shareholders and where the cost and benefit of supplying this information is appropriate.

The Remuneration Committee is composed of J W Morgan, who acts as Chairman, A J McWalter, A D Roper and B M Hynes, all of whom are Non Executive Directors. During the year Aon Hewitt provided advice which materially assisted the Remuneration Committee. D M O'Connor (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 applied 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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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 are entitled to 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.



Remuneration Report

(continued)

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	<p>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.</p> <p>Executive Directors are entitled to receive repayment of costs deemed necessary for them to perform their duties.</p> <p>Other benefits may be provided based on individual circumstances including, but not limited to, housing or relocation expenses.</p>	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	<p>Executive Directors are entitled to membership of Company pension schemes in operation from time to time.</p> <p>The Company currently operates a defined contribution scheme.</p> <p>The Company previously operated a defined benefit scheme, which was closed for future accrual in 2006. Two Executive Directors are deferred members of this scheme.</p> <p>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.</p> <p>Bonus and other benefits received by Executive Directors do not count towards pensionable pay.</p>	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	<p>The Company operates an LTIP approved by shareholders on 16 May 2012.</p> <p>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.</p> <p>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.</p> <p>LTIP payments are non-pensionable.</p>	<p>Executive Directors may be granted LTIP awards up to 100% of salary each year.</p> <p>For threshold performance, 25% of the award vests.</p> <p>For on-target performance, 40% of the award vests.</p> <p>Straight line vesting applies between threshold, target and maximum vesting.</p>	<p>Challenging performance targets are set each year reflecting the business priorities that underpin longer term Group strategy.</p> <p>At least 50% of the LTIP award will normally vest based on adjusted Earnings Per Share performance targets.</p>

There were no changes to Remuneration Policy during the year.

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	<p>Fees for Non-Executive Directors are normally reviewed annually (but may be reviewed more frequently if required).</p> <p>Consideration is given to the following when determining fee levels:</p> <ul style="list-style-type: none"> • Market conditions including typical fee levels for comparator companies • A Non-Executive Director's role and responsibilities <p>Non-Executive Directors do not participate in any incentive scheme.</p>

There were no changes to Remuneration Policy during the year.



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 £	Benefits £	Pensions £	Annual bonus £	Long term incentive plan £	Total remuneration £
2015						
Executive						
D J S Taylor	196,100	695	19,610	140,000	153,335	509,740
D M O'Connor	238,333	444	23,833	175,000	162,505	600,115
J A Roper*	68,925	11,058	4,825	112,000	–	196,808
Non Executive						
A J McWalter	65,000	–	–	–	–	65,000
A D Roper	80,833	–	–	–	–	80,833
J W Morgan	39,417	–	–	–	–	39,417
B M Hynes	39,417	–	–	–	–	39,417
	<u>728,025</u>	<u>12,197</u>	<u>48,268</u>	<u>427,000</u>	<u>315,840</u>	<u>1,531,330</u>
2014						
Executive						
A D Roper	160,000	626	–	144,000	–	304,626
D J S Taylor	190,565	770	19,056	135,321	253,744	599,456
D M O'Connor	212,427	550	21,243	161,000	268,915	664,135
Non Executive						
A J McWalter	65,000	–	–	–	–	65,000
J W Morgan	39,000	–	–	–	–	39,000
B M Hynes	39,000	–	–	–	–	39,000
	<u>705,992</u>	<u>1,946</u>	<u>40,299</u>	<u>440,321</u>	<u>522,659</u>	<u>1,711,217</u>

* From date of appointment 24 July 2015.

J A Roper was appointed to the Board as Sales and Marketing Director on 24 July 2015. Following an assessment of current market rates of remuneration taking into account his responsibilities, the scale of his role and his current experience, his salary was set at a rate of £160,000 per annum. On 1 August 2015, in recognition of his increased responsibilities and performance D M O'Connor's salary was raised by 8.7% to £250,000 per annum. On the same date D J S Taylor's salary was increased by 3.5% to £200,000 again in recognition of his role and performance. The general inflationary rise given to employees was 2.4%. 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 2015 and 2014. 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 2015 Executive Directors were able to earn a maximum of 70% of salary as a performance bonus. Of this figure 14% of salary was payable for achievement of threshold profit levels, 28% for on target performance and 56% for achieving maximum profit objectives. A further 14% of salary could be earned against specified personal objectives. Straight line vesting applied between threshold, target and maximum performance levels.

In 2015 threshold profit bonus levels were payable on the achievement of an operating profit of £4,418,000, on target profit levels were payable on the achievement of operating profits of £4,650,000 and maximum target profit levels were operating profits of £4,900,000.

Profit based awards during the year were of 56% base salary and personal objectives represented up to 14% of base salary.

No change has been made in the operation of annual profit bonus scheme for 2016, with the exception that profit target levels have been increased to reflect higher target profitability.

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. Each option has an exercise price of 10p per ordinary share.

	Number of options 31 December 2014	Number of options granted	Number of options exercised	Number of options 31 December 2015	Date from which exercisable	Expiry date
D J S Taylor						
Long Term Incentive Plan	46,730	–	(46,730)	–	Jun 2015	Jun 2022
Long Term Incentive Plan	21,333	–	–	21,333	May 2016	May 2023
Long Term Incentive Plan	16,580	–	–	16,580	May 2017	May 2024
Long Term Incentive Plan	–	14,123	–	14,123	May 2018	May 2025
D M O'Connor						
Long Term Incentive Plan	49,524	–	(49,524)	–	Jun 2015	Jun 2022
Long Term Incentive Plan	22,609	–	–	22,609	May 2016	May 2023
Long Term Incentive Plan	17,571	–	–	17,571	May 2017	May 2024
Long Term Incentive Plan	–	16,804	–	16,804	May 2018	May 2025

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.

30,927 options were granted on 8 May 2015. The market price of the Company's shares at the date of grant was 547.5p.

For the options granted on 8 May 2015, 100% of the shares will vest given an increase of 45% in adjusted EPS* ('maximum performance') in the year to 31 December 2017 over the base year of 31 December 2014, 40% of the above shares for an increase of 39% in adjusted EPS ('target performance') and 25% of the above shares for an increase of 32% in adjusted EPS ('threshold performance'). Between those levels shares will vest on a pro rata basis. No shares will vest if threshold performance targets are not reached.

*Notional pension fund interest has been excluded from both the base and target EPS levels.

Share price movements during the year

The market price of the Company's shares at the end of the financial year was 720p (2014: 555p). The range of prices for the year to 31 December 2015 was 517.5p to 720p (2014: 400p to 575p) per ordinary share.



Pensions

This section of the Remuneration Report is audited.

D J S Taylor, D M O'Connor and J A Roper are members of the Churchill China 2006 Group Personal Pension Plan. Contributions made by the Group were as shown on page 33 and are at a rate of 10% of basic salary for D J S Taylor and D M O'Connor and 7% for J A Roper.

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

D J S Taylor and D M O'Connor are deferred members of the Churchill Retirement Benefit Scheme. The pension benefit of D J S Taylor is funded to allow retirement between the ages of 60 and 65 with a pension based on accrued service to 31 March 2006. The pension 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 D M O'Connor's accrued benefits earned under the Churchill Group Retirement Benefit Scheme was £600,889 (2014: £608,796). The value of the accrued pension was £30,044 (2014: £30,028). This movement 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.

A D Roper receives benefits as a pensioner member of the Churchill Group Retirement Benefit Scheme.

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. D J S Taylor's service contract was signed on 6 October 2009, D M O'Connor's on 15 May 2012 and J A Roper's on 3 November 2015.

Non Executive Directors are generally appointed on fixed term contracts. A J McWalter signed a fixed term contract of three years' duration expiring on 18 May 2016. B M Hynes signed a fixed term contract of three years' duration expiring on 24 September 2016. J W Morgan signed a fixed term contract of one years' duration expiring on 20 May 2015. A D Roper signed a fixed term contract of two years' duration expiring on 15 August 2016. Non Executive Directors contracts may normally 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 2015 in the 10p ordinary shares of the Company were as follows:

	2015	2014
A D Roper	637,430	642,430
D J S Taylor	45,349	20,000
D M O'Connor	31,805	6,000
J W Morgan	28,000	28,000
A J McWalter	5,000	5,000
B M Hynes	4,000	4,000
J A Roper	1,077,500	—
	<u>1,829,084</u>	<u>705,430</u>

A D Roper's interest in the 10p ordinary shares of the Company at 31 December 2015 represented 5.8% (2014: 5.9%) of the Company's issued share capital. J A Roper's interest in the 10p ordinary shares of the Company at 31 December 2015 represented 9.8% of the Company's issued share capital.

There has been no change in the interests set out above between 31 December 2015 and 23 March 2016.



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 2015 Annual General Meeting, the standard resolution in relation to the approval of the Report of the Remuneration Committee contained in the Annual Report for 2014 was passed. 99.8% of votes were cast in favour of the resolution, 0.1% against, with 0.1% 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 a further improvement in profitability and continuation of our progressive dividend policy. A higher price earnings multiple has also been applied by shareholders to the Group's post tax earnings. Our overall five year return has remained positive at an average compound rate of 23% (AIM: -4%). Over the five year period total shareholder return from the Group has been 185% whilst that achieved by the AIM index as a whole was -17%. In the year to 31 December 2015 the overall return from the Group was 33%, (AIM: 6%).

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
23 March 2016



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 its governance procedures.

The Board of Directors

The Board is currently composed of three Executive and four Non Executive Directors and meets at least eleven times per year. It is felt that the current composition and operation of the Board is adequate to ensure a balance of power and authority. The Non Executive members of the Board take an active and influential part in Board procedures and a senior independent Non Executive Director, J W Morgan, has been formally appointed.

The Code recommends that the Boards of listed companies include at least three independent Non Executive Directors. The Board has fully reviewed the independence of Non Executive Directors and J W Morgan, A J McWalter and B M Hynes are all considered to be independent under the terms of the Code. A D Roper, is not considered to be independent under the terms of the Code given his previous service as an Executive Director and his substantial shareholding. As the Board contains three independent Non Executive Directors this is not believed to be of major significance.

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

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

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

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 Audit Committee has reviewed and approved the Audit Plan received from PricewaterhouseCoopers LLP, the external auditors, and received a detailed report on the findings of the audit process for the year to 31 December 2015.

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.

Going Concern and Viability Statement

Our business benefits from both a significant degree of repeat sales and operates in diverse and fragmented markets worldwide. The majority of our operations and revenues are derived from developed economies. We have a well invested operating base and a strong balance sheet. The Group's current financial position is set out in the Consolidated Balance Sheet on page 42, which includes significant net cash and deposits. We recognise the consistent generation of cash from our operations as a key performance indicator and manage our business accordingly. We have undrawn overdraft facilities and have given no security over our assets.

Our cash and deposit balances are managed taking into account liquidity and solvency requirements in the short and medium term. We maintain a high degree of liquidity as part of our short term cash and treasury management processes.

The growth achieved in our business, particularly in relation to products manufactured in the UK, has lead us to plan for increases in capital investment and working capital to support this growth in the medium term. We have factored these requirements into our forward plans.



The Group is the principal employer in relation to the Churchill Group Retirement Benefit Scheme, a defined benefit pension scheme (see note 23), and carries a legal obligation to support the Scheme and fund the current scheme deficit. The Group has agreed to a funding schedule to eliminate this deficit over a ten year period.

The principal risks to our business are identified and discussed on page 17 of this report. Any change in each of these or a combination of the risks would impact on our financial position. In the event of change the effects are likely to be felt over a period of time rather than immediately, giving the business time to react and adjust its plans and operations.

The financial viability of the business is most sensitive to changes in external market and economic conditions affecting our competitive position, revenues and profitability. Our solvency and liquidity may be affected by prolonged adverse changes although the business retains flexibility to both mitigate these risks and adjust its operations in the medium term.

Significant changes to investment performance, asset values and member demographics may impact on the funding level of the Churchill Group Retirement Benefit Scheme and consequently on cash funding requirements.

The Board have reviewed the impact of the above risks on the financial position and viability of the business.

The business has recorded steady improvements to operating performance and continued cash generation for the last five years and benefits from a good current business and financial position. Our planning process has reflected consideration of several alternative scenarios around our core expectation of steady growth in our markets and continued geographic expansion. We have considered the impact of the loss of revenue and profit from market shifts and changes in the political and macro-economic environment and taxation regulations.

Our viability analysis has been conducted over the three year period of our normal planning cycle. Whilst the business operates with a very long term view, we recognise that our ability to accurately consider our performance and the climate in which we may operate reduces the further we look into the future. We do not believe that the plans we develop are likely to be inconsistent with most probable longer term assessments.

Taking into account the foregoing, the Directors have a reasonable expectation that the Company will continue in operation and meet its liabilities as they fall due over the period of our assessment.

By order of the Board

D J S Taylor

Company Secretary
23 March 2016



Report on the financial statements

Our opinion

In our opinion:

- Churchill China plc's Group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 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.

What we have audited

The financial statements, included within the Annual Report and financial statements (the "Annual Report"), comprise:

- the Consolidated balance sheet as at 31 December 2015;
- the Company balance sheet as at 31 December 2015;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated cash flow statement for the year then ended;
- the Consolidated statement of changes in equity for the year then ended; 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 IFRSs as adopted by the European Union, and applicable law. The financial reporting framework that has been applied in the preparation of the parent company financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (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.

Opinion on other matter 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 set out on page 25, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("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 parent 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.

What an audit of financial statements involves

We conducted our audit in accordance with 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.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in 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.

Paul Norbury (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

East Midlands

23 March 2016



Consolidated Income Statement

for the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Revenue	4	46,829	44,518
Operating profit	5	4,959	4,249
Share of results of associate company	15	135	116
Finance income	8	82	76
Finance costs	8	(162)	(124)
Profit before income tax		5,014	4,317
Income tax expense	10	(928)	(901)
Profit for the year attributable to owners of the Company		4,086	3,416
Basic earnings per ordinary share	11	37.3p	31.2p
Diluted earnings per share	11	36.9p	30.8p

All of the above figures relate to continuing operations.

The notes on pages 47 to 77 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 £1,468,000 (2014: £1,414,000).



Consolidated Statement of Comprehensive Income

for the year ended 31 December 2015

	2015 £'000	2014 £'000
Other comprehensive income / (expense)		
Items that will not be reclassified to profit and loss:		
Remeasurements of post employment benefit obligations (note 23)	104	(1,850)
Items that may be reclassified subsequently to profit and loss:		
Impact of change in UK tax rate on deferred tax on revaluation reserve	24	–
Currency translation differences	16	17
Other comprehensive income / (expense) for the year	144	(1,833)
Profit for the year	4,086	3,416
Total comprehensive income for the year	4,230	1,583
Attributable to:		
Equity holders of the Company	4,230	1,583

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 Comprehensive Income has been presented.



Consolidated Balance Sheet

as at 31 December 2015

	Notes	2015 £'000	2014 £'000
Assets			
Non current assets			
Property, plant and equipment	13	14,046	14,258
Intangible assets	14	59	63
Investment in associate	15	1,231	1,096
Deferred income tax assets	22	848	1,117
		<u>16,184</u>	<u>16,534</u>
Current assets			
Inventories	18	8,360	8,274
Trade and other receivables	19	8,648	8,255
Other financial assets	20	2,500	1,500
Cash and cash equivalents		9,307	8,961
		<u>28,815</u>	<u>26,990</u>
Total assets		<u>44,999</u>	<u>43,524</u>
Liabilities			
Current liabilities			
Trade and other payables	21	(8,721)	(8,676)
Current income tax liabilities		(580)	(698)
		<u>(9,301)</u>	<u>(9,374)</u>
Non current liabilities			
Deferred income tax liabilities	22	(936)	(1,070)
Retirement benefit obligations	23	(3,837)	(4,674)
Total liabilities		<u>(14,074)</u>	<u>(15,118)</u>
Net assets		<u>30,925</u>	<u>28,406</u>
Equity attributable to owners of the Company			
Issued share capital	24	1,101	1,096
Share premium account	24	2,348	2,348
Treasury shares	25	(144)	(224)
Other reserves	26	1,439	1,532
Retained earnings	27	26,181	23,654
Total equity		<u>30,925</u>	<u>28,406</u>

The notes on pages 47 to 77 are an integral part of these consolidated financial statements.

The financial statements on pages 40 to 77 were approved by the Board of Directors on 23 March 2016 and were signed on its behalf by:

D M O'Connor

Director

D J S Taylor

Director

Company number 02709505



Company Balance Sheet

as at 31 December 2015

	Notes	2015 £'000	2014 £'000
Assets			
Non current assets			
Investment in associate	15	355	355
Investments in subsidiaries	16	2,195	2,195
Deferred income tax assets	22	78	61
		<u>2,628</u>	<u>2,611</u>
Current assets			
Trade and other receivables: non current	19	4,560	5,136
Trade and other receivables: current	19	185	174
Cash at bank and in hand		681	415
		<u>5,426</u>	<u>5,725</u>
Current liabilities			
Trade and other payables	21	(67)	(106)
Net current assets		<u>5,359</u>	<u>5,619</u>
Total assets less current liabilities		<u>7,987</u>	<u>8,230</u>
Net assets		<u>7,987</u>	<u>8,230</u>
Equity attributable to owners of the Company			
Issued share capital	24	1,101	1,096
Share premium account	24	2,348	2,348
Treasury shares	25	(144)	(224)
Other reserves	26	184	307
Profit and loss account	27	4,498	4,703
Total equity		<u>7,987</u>	<u>8,230</u>

The notes on pages 47 to 77 are an integral part of these financial statements.

The financial statements on pages 40 to 77 were approved by the Board of Directors on 23 March 2016 and were signed on its behalf by:

D M O'Connor
Director

D J S Taylor
Director



Consolidated Statement of Changes in Equity

for the year ended 31 December 2015

	Retained earnings £'000	Share capital £'000	Share premium account £'000	Treasury shares £'000	Other reserves £'000	Total £'000
Balance at 1 January 2014	23,697	1,096	2,348	(41)	1,332	28,432
Comprehensive Income:						
Profit for the year	3,416	–	–	–	–	3,416
Other comprehensive income:						
Depreciation transfer – gross	12	–	–	–	(12)	–
Depreciation transfer – tax	(2)	–	–	–	2	–
Remeasurement of post employment benefit obligations – net of tax	(1,850)	–	–	–	–	(1,850)
Currency translation	–	–	–	–	17	17
Total comprehensive income	1,576	–	–	–	7	1,583
Transactions with owners						
Dividends relating to 2013 and 2014 (note 12)	(1,619)	–	–	–	–	(1,619)
Share based payment	–	–	–	–	193	193
Treasury shares (note 25)	–	–	–	(183)	–	(183)
Total transactions with owners	(1,619)	–	–	(183)	193	(1,609)
Balance at 1 January 2015	23,654	1,096	2,348	(224)	1,532	28,406
Comprehensive Income:						
Profit for the year	4,086	–	–	–	–	4,086
Other comprehensive income:						
Depreciation transfer – gross	12	–	–	–	(12)	–
Depreciation transfer – tax	(2)	–	–	–	2	–
Deferred tax – change in rate	–	–	–	–	24	24
Remeasurement of post employment benefit obligations – net of tax	104	–	–	–	–	104
Currency translation	–	–	–	–	16	16
Total comprehensive income	4,200	–	–	–	30	4,230
Transactions with owners						
Dividends relating to 2014 and 2015 (note 12)	(1,816)	–	–	–	–	(1,816)
Proceeds of share issue	–	5	–	5	–	10
Share based payment	250	–	–	–	(123)	127
Deferred tax – share based payment	102	–	–	–	–	102
Treasury shares (note 25)	(209)	–	–	75	–	(134)
Total transactions with owners	(1,673)	5	–	80	(123)	(1,711)
Balance at 31 December 2015	26,181	1,101	2,348	(144)	1,439	30,925



Consolidated Cash Flow Statement

for the year ended 31 December 2015

	2015 £'000	2014 £'000
Cash flows from operating activities		
Cash generated from operations (see page 46)	5,316	6,903
Interest received*	82	76
Interest paid	(1)	(5)
Income tax paid	(922)	(688)
Net cash generated from operating activities	4,475	6,286
Cash flows investing activities		
Purchases of property, plant and equipment	(1,214)	(2,238)
Proceeds on disposal of property, plant and equipment	52	57
Purchases of intangible assets	(27)	(42)
Net cash used in investing activities	(1,189)	(2,223)
Cash flows from financing activities		
Issue of ordinary shares	10	–
Purchase of treasury shares	(134)	(183)
Dividends paid	(1,816)	(1,619)
Sale of other financial assets	1,500	1,000
Purchase of other financial assets	(2,500)	(1,500)
Net cash used in financing activities	(2,940)	(2,302)
Net increase in cash and cash equivalents	346	1,761
Cash and cash equivalents at the beginning of the year	8,961	7,199
Exchange gain on cash and cash equivalents	–	1
Cash and cash equivalents at the end of the year	9,307	8,961

* 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

	2015 £'000	2014 £'000
Continuing operating activities		
Operating profit	4,959	4,249
Adjustments for:		
Depreciation and amortisation	1,495	1,627
Loss on disposal of property, plant and equipment	4	10
Charge for share based payments	128	193
Difference between pension service cost and contributions (see note 23)	(758)	(672)
Changes in working capital:		
Inventory	(86)	495
Trade and other receivables	(371)	338
Trade and other payables	(55)	663
Net cash inflow from operations	5,316	6,903



1 Summary of significant accounting policies

The consolidated financial statements of Churchill China plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

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

Going concern

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

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

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

No new standards applying to the Group for the first time for the financial year beginning on 1 January 2015 have had a material impact on the Group.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2016, 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. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for accounting periods beginning on or after 1 January 2018. The Group does not believe IFRS 9 will have a material impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard replaces IAS 18 'Revenue'. The standard is effective for accounting periods beginning on or after 1 January 2017. The Group is assessing the impact of IFRS 15.

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



1 Summary of significant accounting policies (continued)

Basis of consolidation

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

The financial statements of each undertaking in the Group are prepared to the balance sheet date under FRS 101. 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.

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.



1 Summary of significant accounting policies (continued)

Segment reporting

Operating segments are reported in a way consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Churchill China plc. Income and expenditure arising directly from a business segment are identified to that segment. Income and expenditure arising from central operations which relate to the Group as a whole or cannot reasonably be allocated between segments are classified as unallocated.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, rebates and sales related taxes. Sales of goods are recognised when goods have been delivered and title in those goods has passed. Rebates are recognised at their anticipated level as soon as any liability is expected to arise and are deducted from gross revenue.

Interest income is recognised on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income is recognised when the Group's right to receive payment has been established.

Leases

Management review new leases and classify them as operating or finance leases in accordance with the balance of risk and reward between lessee and the lessor. Lease payments made under operating leases are charged to 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.

Interest received/paid

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



1 Summary of significant accounting policies (continued)

Retirement benefit costs

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

The defined benefit scheme is valued every three years by a professionally qualified independent Actuary. In intervening years, the Actuary reviews the continuing appropriateness of the valuation. Scheme liabilities are measured using the projected unit method and the amount recognised in the balance sheet is the present value of these liabilities at the balance sheet date. The discount rate used to calculate the present value of liabilities is the interest rate attaching to high 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.



1 Summary of significant accounting policies (continued)

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 holds no goodwill.

Impairment of non financial assets

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

Inventories

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

Available for sale financial assets

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

At each reporting date the Directors assess whether there is an indication an asset may be impaired. If any such indicator exists the Group tests for impairment by estimating the recoverable amount of the asset. If the recoverable amount is less than the carrying value of an asset an impairment loss is required.

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.

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 7.



1 Summary of significant accounting policies (continued)

Non current assets held for sale

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

Provisions

Provisions are recognised when (i) the Group has a present legal or constructive obligation as a result of past events, (ii) it is probable that an outflow of resources will be required to settle the obligation and (iii) the amount has been reliably estimated. The Directors estimate the amount of provisions required to settle any obligation at the balance sheet date. Provisions are discounted to their present value where the effect would be material.

Parent Company significant accounting policies

The Company financial statements are prepared under IFRS. 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 2015, 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 £70,000 (2014: £4,000) 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 £15,000 (2014: £14,000) 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 £259,000 (2014: £4,000) 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.



2 Financial risk management (continued)

(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 2015, had the interest rates achieved been 10% higher / lower with all other variables held constant then post tax profit for the year would have been £8,000 (2014: £7,000) higher / lower. Other components of equity would have been unchanged.

(b) Credit risk

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

Cash and cash equivalents are as follows:

	Credit rating	2015 £'000	2014 £'000
Lloyds Bank plc	A	7,466	7,156
National Westminster Bank plc	A	771	767
Santander UK plc	A	763	755
Other	Min A	307	283
		9,307	8,961

Other financial assets are as follows:

	Credit rating	2015 £'000	2014 £'000
Lloyds Bank plc	A	2,500	1,500
		2,500	1,500

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.



2 Financial risk management (continued)

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 £235,000 (2014: £240,000).

(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.

(a) Primary reporting format – business segments

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

	31 December 2015			
	Hospitality £'000	Retail £'000	Unallocated £'000	Group £'000
Revenue from external customers	38,859	7,970	–	46,829
Contribution to Group overheads excluding depreciation and amortisation	8,182	1,121	(2,849)	6,454
Depreciation and amortisation	(1,033)	(225)	(237)	(1,495)
Operating profit	7,149	896	(3,086)	4,959
Share of results of associate company				135
Finance income				82
Finance cost				(162)
Profit before income tax				<u>5,014</u>

	31 December 2014			
	Hospitality £'000	Retail £'000	Unallocated £'000	Group £'000
Revenue from external customers	35,999	8,519	–	44,518
Contribution to Group overheads excluding depreciation and amortisation	7,779	1,183	(3,086)	5,876
Depreciation and amortisation	(1,190)	(224)	(213)	(1,627)
Operating profit	6,589	959	(3,299)	4,249
Share of results of associate company				116
Finance income				76
Finance cost				(124)
Profit before income tax				<u>4,317</u>

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 (2014: £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.



4 Segmental analysis (continued)

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).

Segment assets and liabilities at 31 December 2015 and capital expenditure for the year ended on that date are as follows:

	Hospitality £'000	Retail £'000	Unallocated £'000	Group £'000
Assets excluding inventories	16,856	3,583	14,969	35,408
Inventories	6,283	2,077	–	8,360
Investment in associates	–	–	1,231	1,231
Total assets	23,139	5,660	16,200	44,999
Total liabilities	5,937	557	7,580	14,074
Capital expenditure	1,191	78	62	1,331

Segment assets and liabilities at 31 December 2014 and capital expenditure for the year ended on that date are as follows:

	Hospitality £'000	Retail £'000	Unallocated £'000	Group £'000
Assets excluding inventories	16,277	3,920	13,957	34,154
Inventories	6,009	2,265	–	8,274
Investment in associates	–	–	1,096	1,096
Total assets	22,286	6,185	15,053	43,524
Total liabilities	5,353	646	9,119	15,118
Capital expenditure	1,711	60	218	1,989

(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.

	2015 £'000	2014 £'000
Geographical segment – Revenue		
United Kingdom	27,192	26,861
Rest of Europe	10,997	10,056
North America	4,193	3,683
Rest of the World	4,447	3,918
	46,829	44,518

The total assets of the business are allocated as follows:

United Kingdom £44,136,000 (2014: £42,827,000), Rest of Europe £29,000 (2014: £46,000), North America £827,000 (2014: £651,000), Rest of the World £7,000 (2014: £nil).

Capital expenditure was made as follows:

United Kingdom £1,331,000 (2014: £1,989,000),



5 Expenses by nature

	2015 £'000	2014 £'000
Changes in inventories of finished goods and work in progress	(98)	493
Raw materials used	3,875	3,329
Purchase of goods for resale	6,036	5,986
Employee benefit expense (note 7)	17,512	16,518
Other external charges	13,051	12,301
Depreciation and amortisation charges	1,495	1,627
Loss on disposal of property, plant and equipment	4	10
Foreign exchange (gains) / losses	(5)	5
Total cost of sales, distribution costs and administrative expenses	41,870	40,269

6 Average number of people employed

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

	2015 Number	2014 Number
By activity		
Production and warehousing	369	348
Sales and administration	192	191
	561	539

The Company had no employees (2014: none).

7 Employee benefit expense

	2015 £'000	2014 £'000
Staff costs (for the employees shown in note 6)		
Wages and salaries	15,160	14,305
Social security costs	1,499	1,327
Defined contribution pension cost (see note 23)	549	526
Other pension costs (see note 23)	176	167
Share options granted to directors and employees (see note 24)	128	193
	17,512	16,518

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 (2014: nil).



8 Finance income and costs

	2015 £'000	2014 £'000
Interest income on cash and cash equivalents	82	76
Finance income	82	76
Interest on defined benefit schemes (note 23)	(161)	(119)
Other interest	(1)	(5)
Finance costs	(162)	(124)
Net finance cost	(80)	(48)

9 Auditors' remuneration

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

	2015 £'000	2014 £'000
Fees payable to the Company's auditor for the audit of the Company and consolidated financial statements (Company £3,000, 2014: £3,000)	8	7
Additional fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries	78	73
Other services	–	2
Total fees payable to the Group's auditors	86	82

10 Income tax expense

	2015 £'000	2014 £'000
Group		
Current tax – current year	852	935
– adjustment in respect of prior periods	(49)	(113)
	803	822
Deferred tax (note 22)		
Reversal of temporary differences	125	79
Income tax expense	928	901

The Finance Act (No.2) 2015 was substantively enacted on 18 November 2015 and includes legislation to reduce the main rate of Corporation Tax from 20% to 18% from April 2020. Deferred tax balances have been re-measured accordingly. The 2016 Budget reduced the main rate of corporation Tax to 17% with effect from April 2020. As this measure has not yet received Royal Assent it has not been reflected in the financial statements.

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:

	2015 £'000	2014 £'000
Profit before income tax	5,014	4,317
Tax calculated at domestic tax rates applicable to profits in the respective countries	1,015	928
Expenses not deductible for tax purposes	18	16
Adjustment in respect of prior periods	(49)	(113)
Change in tax rate	(81)	–
Treatment of tax on share of profit of associate company	(27)	(24)
Other	52	94
Tax charge	928	901

The weighted average applicable tax rate was 20.25% (2014: 21.5%).

During the year a charge of £136,000 (2014: credit of £463,000) in relation to deferred tax arising from actuarial gains and losses on the Group's defined benefit pension obligation and a credit of £102,000 (2014: £nil) in relation to deferred taxation on share based payments 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 10,956,828 (2014: 10,934,908) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

	2015	2014
	Pence per share	Pence per share
Basic earnings per share (Based on earnings £4,086,000 (2014: £3,416,000))	37.3	31.2

Diluted earnings per ordinary share is based on the profit after income tax and on 11,064,046 (2014: 11,105,668) ordinary shares, being the weighted average number of ordinary shares in issue during the year of 10,956,828 (2014: 10,934,908) increased by 107,218 (2014: 170,760) 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.

	2015	2014
	Pence per share	Pence per share
Diluted basic earnings per share (Based on earnings £4,086,000 (2014: £3,416,000))	36.9	30.8

12 Dividends

The dividends paid in the year were as follows:

	2015	2014
	£'000	£'000
Ordinary dividend:		
Final dividend 2014: 11.0p (Final dividend 2013: 9.7p) per 10p ordinary share dividend	1,200	1,062
Interim 2015: 5.6p per 10p ordinary share paid (Interim 2014: 5.1p)	616	557
	1,816	1,619

The Directors now recommend payment of the following dividend:

	2015	2014
	£'000	£'000
Ordinary dividend:		
Final dividend 2015: 12.7p (2014: 11.0p) per 10p ordinary share	1,395	1,200

Dividends on treasury shares held by the Company are waived.



13 Property, plant and equipment

The Company has no property, plant and equipment (2014: 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 2014					
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
Year ended 31 December 2014					
Opening net book amount	10,092	2,871	544	160	13,667
Additions	340	1,354	186	75	1,955
Disposals	–	–	(67)	–	(67)
Reclassification – Intangible assets	–	–	–	301	301
Depreciation charge	(251)	(1,022)	(149)	(176)	(1,598)
Closing net book amount	10,181	3,203	514	360	14,258
At 31 December 2014					
Cost	12,734	19,669	907	2,641	35,951
Accumulated depreciation	(2,553)	(16,466)	(393)	(2,281)	(21,693)
Net book amount	10,181	3,203	514	360	14,258
Year ended 31 December 2015					
Opening net book amount	10,181	3,203	514	360	14,258
Additions	187	930	148	39	1,304
Disposals	–	–	(52)	–	(52)
Depreciation charge	(236)	(935)	(142)	(151)	(1,464)
Closing net book amount	10,132	3,198	468	248	14,046
At 31 December 2015					
Cost	12,921	20,599	922	2,680	37,122
Accumulated depreciation	(2,789)	(17,401)	(454)	(2,432)	(23,076)
Net book amount	10,132	3,198	468	248	14,046



14 Intangible assets

The Company has no intangible assets (2014: none). Details of these relating to the Group are as follows:

	Computer software £'000
Group	
At 1 January 2014	
Cost	1,263
Accumulated amortisation	(904)
Net book amount	<u>359</u>
Year ended 31 December 2014	
Opening net book amount	359
Additions	34
Reclassification – Property, plant and equipment	(301)
Amortisation charge	(29)
Closing net book amount	<u>63</u>
At 31 December 2014	
Cost	842
Accumulated amortisation	(779)
Net book amount	<u>63</u>
Year ended 31 December 2015	
Opening net book amount	63
Additions	27
Amortisation charge	(31)
Closing net book amount	<u>59</u>
At 31 December 2015	
Cost	869
Accumulated amortisation	(810)
Net book amount	<u>59</u>

During 2014 certain information technology assets were reclassified as property, plant and equipment.



15 Investment in associate

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Cost				
At 1 January	1,524	1,408	355	355
Share of profit	134	116	–	–
At 31 December	1,658	1,524	355	355
Impairment				
At 1 January	428	428	–	–
Reversal of impairment of investment in associate	(1)	–	–	–
At 31 December	427	428	–	–
Net book value				
Closing net book amount	1,231	1,096	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.

	2015 £'000	2014 £'000
Share of associate's assets	2,262	2,053
Share of associate's liabilities	(555)	(480)
Share of associate's net assets	1,707	1,573

The total revenue of Furlong Mills Limited for its year ended 31 December 2015 was £8,282,000 (2014: £7,857,000) and profit before tax was £660,000 (2014: £878,000). During the year the Group purchased raw materials to a value of £2,657,000 (2014: £2,327,000) from Furlong Mills Limited. Amounts owed to Furlong Mills Limited at 31 December 2015 were £141,000 (2014: £141,000) (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 5.9% (2014: 6.2%).

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



16 Investment in subsidiaries

Company

	2015 £'000	2014 £'000
Cost or valuation		
At 1 January and 31 December	<u>2,627</u>	<u>2,627</u>
Impairment		
At 1 January and 31 December	<u>432</u>	<u>432</u>
Net book value		
At 31 December	<u>2,195</u>	<u>2,195</u>

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	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
Churchill Housewares Limited	England and Wales	Ordinary	100%	Dormant
Churchill Tableware Limited	England and Wales	Ordinary	100%	Dormant
Churchill Fine Bone China Holdings Limited	England and Wales	Ordinary	100%	Dormant
Churchill Fine Bone China Limited	England and Wales	Ordinary	100%	Dormant
Elizabethan Fine Bone China Limited	England and Wales	Ordinary	100%	Dormant
Churchill China (HK) Limited	Hong Kong	Ordinary	100%	Dormant

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 2015	–	43
Disposal	–	(43)
At 31 December 2015	–	–
Impairment		
At 1 January 2015	–	43
Disposal	–	(43)
At 31 December 2015	–	–
Fair value / Net book value		
At 1 January and 31 December 2015	–	–

The above represents 35.9% (2014: 35.9%) of the issued ordinary share capital of Shraff Management Limited, a company registered in England and Wales.

On 12 October 2015, following the final cessation of its business, the Board of Shraff Management Limited applied for that Company to be struck off the Register. Following this application Shraff Management Limited was formally dissolved. The Group has not received any proceeds from the dissolution of Shraff Management Limited..

The Directors did not consider that the investment in Shraff Management Limited should be accounted for as an associate as Churchill China plc was not in a position to and did not exercise significant influence over Shraff Management Limited, taking into account other large third party shareholdings.

18 Inventories

The Company has no inventory (2014: none). Details of inventory relating to the Group are as follows:

	2015 £'000	2014 £'000
Raw materials	62	55
Work in progress	698	495
Finished goods	7,600	7,724
	8,360	8,274

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 £25,813,000 (2014: £24,476,000).



19 Trade and other receivables

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Trade receivables	8,602	8,282	–	–
Less: provision for impairment of trade receivables	(345)	(385)	–	–
Trade receivables – net	8,257	7,897	–	–
Prepayments	391	358	–	–
Receivables from related parties (note 29)	–	–	4,745	5,310
	8,648	8,255	4,745	5,310
Less non-current portion: loans to related parties	–	–	4,560	5,136
Current portion	8,648	8,255	185	174

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 2015, trade receivables of £6,185,000 (2014: £6,313,000) were fully performing.

As of 31 December 2015, trade receivables of £819,000 (2014: £531,000) were past due but not impaired. The ageing of these receivables is as follows:

	2015	2014
	£'000	£'000
Up to 3 months	819	522
3 to 6 months	–	5
Over 6 months	–	4
	819	531

As of 31 December 2015 trade receivables with a gross value of £1,598,000 (2014: £1,438,000) were impaired and provided for. The amount of provision for 31 December 2015 was £345,000 (2014: £385,000). 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:

	2015	2014
	£'000	£'000
Up to 3 months	1,552	1,435
3 to 6 months	19	–
Over 6 months	27	3
	1,598	1,438

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



19 Trade and other receivables (continued)

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

	2015 £'000	2014 £'000
At 1 January	385	487
Provision for receivables impairment	(50)	(87)
Written off during the year	10	(15)
At 31 December	345	385

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 (2014: £7,000) have been reviewed and an impairment provision of £7,000 (2014: £7,000) established. The charge associated with the creation of this provision has been included in 'other external charges' in the income statement (note 5).

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

	2015 £'000	2014 £'000
Pounds	6,499	6,276
Euros	1,489	1,188
US dollars	660	791
	8,648	8,255

During the year the Group realised gains of £nil (2014: losses of £14,000) 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 £3,461,000 (2014: £793,000) and the sale of US dollars of £169,000 (2014: £248,000). These contracts are held at their fair value with a gain of £5,000 (2014: gain of £8,000) recognised in relation to the contracts outstanding at the year end.

Company

As of 31 December 2015, Company receivables of £nil (2014: £nil) were fully performing. Amounts receivable are repayable in accordance with agreed terms. No interest is chargeable.

Other receivables of £nil (2014: £nil) gross were impaired and provided for. The amount of this provision at 31 December 2015 was £nil (2014: £nil). Interest is chargeable on these receivables.

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

	2015 £'000	2014 £'000
Pounds	4,669	5,245
US dollars	76	65
	4,745	5,310



20 Other financial assets

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Other receivables	<u>2,500</u>	<u>1,500</u>	<u>–</u>	<u>–</u>

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	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Trade payables	2,133	2,174	–	–
Amounts due to related parties	141	141	13	13
Social security and other taxes	1,029	1,361	54	92
Accrued expenses	5,418	5,000	–	1
	<u>8,721</u>	<u>8,676</u>	<u>67</u>	<u>106</u>

All the above liabilities mature within twelve months from 31 December 2015.

22 Deferred income tax

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

Group	2015 £'000	2014 £'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	668	1,078
– Deferred tax asset to be recovered within 12 months	<u>180</u>	<u>39</u>
	848	1,117
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	(891)	(1,028)
– Deferred tax liabilities to be recovered within 12 months	<u>(45)</u>	<u>(42)</u>
	(936)	(1,070)
Deferred tax asset / (liability) (net)	<u>(88)</u>	<u>47</u>

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

	2015 £'000	2014 £'000
At 1 January	47	(337)
Income statement charge (note 10)	(125)	(79)
Tax credits relating to components of comprehensive income	24	–
Tax credited / (charged) directly to equity (note 27)	<u>(34)</u>	<u>463</u>
At 31 December	<u>(88)</u>	<u>47</u>



22 Deferred income tax (continued)

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

	Accelerated tax depreciation £'000	Land and buildings revaluation £'000	Total £'000
Deferred tax liabilities			
At 1 January 2014	864	238	1,102
Credited to the income statement	(30)	(2)	(32)
At 31 December 2014	834	236	1,070
Credited to the income statement	(108)	(2)	(110)
Credited to other comprehensive income	–	(24)	(24)
At 31 December 2015	726	210	936

	Accelerated tax depreciation £'000	Retirement benefit obligation £'000	Other £'000	Total £'000
Deferred tax liabilities				
At 1 January 2014	(129)	(583)	(53)	(765)
(Credited)/charged to the income statement	20	111	(20)	111
Charged directly to equity	–	(463)	–	(463)
At 31 December 2014	(109)	(935)	(73)	(1,117)
Charged / (credited) to the income statement	38	108	89	235
Charged / (credited) directly to equity	–	136	(102)	34
At 31 December 2015	(71)	(691)	(86)	(848)

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

	2015 £'000	2014 £'000
Fair value reserves in shareholders' equity:		
Tax on re-measurement of defined pension benefits	136	(463)
Tax on share based payments	(102)	–
	34	(463)

Deferred income tax of £2,000 (2014: £2,000) was transferred from other reserves (note 26) to retained earnings (note 27). This represents deferred tax on the difference between the actual depreciation on buildings and the equivalent depreciation based on the historical cost of buildings.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has not recognised deferred income tax assets of £971,000 (2014: £1,079,000) in respect of capital losses amounting to £5,395,000 (2014: £5,395,000) that can be carried forward against future capital gains.

Company

Deferred tax assets of £78,000 (2014: £61,000) are recognised relating to short term timing differences.



23 Retirement benefit obligations

	2015 £'000	2014 £'000
Balance sheet obligations		
Pension benefits	<u>3,837</u>	<u>4,674</u>
Income statement charge		
Pension benefits	725	693
Finance costs	<u>161</u>	<u>119</u>

The Group operates four 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, the Churchill China 2006 Group Personal Pension Plan and the Churchill section of the Peoples Pension, an auto enrolment scheme. The last three 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 £725,000 (2014: £693,000). Of this cost £nil (2014: £nil), related to the Churchill Group Retirement Benefit Scheme, £255,000 (2014: £249,000) was in respect of the Churchill China 1999 Pension Scheme, £263,000 (2014: £257,000) was in respect of the Churchill China 2006 Group Personal Pension Scheme and £24,000 (2014: £19,000) 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 £25,000 (2014: £26,000).

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 £758,000 (2014: £672,000) was made in respect of the amortisation of past service liabilities. This payment included an additional payment of £715,000 made in November and December 2015, accelerating the 2016 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 2014 triennial actuarial valuation in January 2015. The Group expects to make payments of £715,000 per annum in respect of the amortisation of past service deficits. The next triennial actuarial valuation is scheduled for commencement at 31 May 2017. Future amortisation payments will be assessed following completion of that valuation.

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

	2015 £'000	2014 £'000
Present value of funded obligations	41,808	42,731
Fair value of plan assets	<u>(37,971)</u>	<u>(38,057)</u>
Liability in balance sheet	<u>3,837</u>	<u>4,674</u>

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

	2015 £'000	2014 £'000
At 1 January	42,731	39,241
Interest cost	1,573	1,773
Experience gains on liabilities	(1,006)	(395)
Re-measurements from change in demographic and financial assumptions	88	3,522
Benefits paid	<u>(1,578)</u>	<u>(1,410)</u>
At 31 December	<u>41,808</u>	<u>42,731</u>



23 Retirement benefit obligations (continued)

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

	2015 £'000	2014 £'000
At 1 January	38,057	36,327
Expected return on plan assets	1,412	1,654
Re-measurement of return on plan assets excluding amounts included in interest expense	(678)	814
Employer contributions	758	672
Benefits paid	(1,578)	(1,410)
At 31 December	37,971	38,057

Plan assets are comprised as follows:

	2015		2014	
	£'000		£'000	
Equity investment funds	19,784	52%	20,506	54%
Absolute return funds	6,843	18%	5,778	15%
Other investment funds	1,468	4%	1,096	3%
Debt investments	8,078	21%	8,671	23%
Cash and cash equivalents	1,798	5%	2,006	5%
	37,971		38,057	

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:

	2015 £'000	2014 £'000
Interest cost on defined benefit plans	161	119

The actual return on plan assets was a gain of £734,000 (2014: gain of £2,563,000).

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
At 31 December					
Present value of funded obligations	41,808	42,731	39,241	37,330	33,058
Fair value of plan assets	(37,971)	(38,057)	(36,327)	(32,276)	(29,763)
Liability in balance sheet	3,837	4,674	2,914	5,054	3,295
Experience adjustments on scheme assets:					
Amount	(678)	814	2,204	1,323	(2,074)
Experience adjustments on scheme liabilities:					
Amount	1,006	395	(88)	(590)	403

Re-measurement gains and losses

Re-measurement gains of £240,000 (2014: losses of £2,313,000) 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 £12,039,000 (2014: £12,279,000).



23 Retirement benefit obligations (continued)

The principal actuarial assumptions used were as follows:

Pension benefits

	2015 % per annum	2014 % per annum
Discount rate	3.8%	3.75%
Inflation rate – RPI	3.2%	3.1%
– CPI	2.2%	2.1%
Rate of increase of pensions in payment	2.2%	2.1%
Rate of increase of deferred pensions	2.2%	2.1%

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

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

	2015 Number	2014 Number
Male	21.0	21.0
Female	23.3	23.3

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

	2015 Number	2014 Number
Male	22.6	22.8
Female	25.1	25.2

Risks

Through its defined benefit pension plan, the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. The debt investments represent investments in UK securities only.

The Group believes that due to the long-term nature of the plan liabilities and the strength of the supporting group, a level of continuing equity investment is an appropriate element of the group's long term strategy to manage the plans efficiently.

Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.



23 Retirement benefit obligations (continued)

Inflation risk

The Groups pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy

The plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant where inflationary increases result in higher sensitivity to changes in life expectancy.

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 3.9% would be to reduce scheme liabilities by £734,000 (1.8%).

The effect of a 0.1% decrease in the discount rate to 3.7% would be to increase scheme liabilities by £753,000 (1.8%).

The effect of a 0.1% increase in RPI inflation to 3.3% and CPI inflation to 2.3% would increase scheme liabilities by £597,000 (1.4%).

The effect of a 0.1% decrease in RPI inflation to 3.1% and CPI inflation to 2.1% would reduce scheme liabilities by £584,000 (1.4%).

The effect of a 1 year increase to life expectancy would increase scheme liabilities by £1,261,000 (23.0%). The effect of a 1 year reduction in life expectancy would be to reduce scheme liabilities by £1,237,000 (3.0%).

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 1 January 2015	10,958	1,096	2,348
Employee share option scheme	50	5	–
At 31 December 2015	11,008	1,101	2,348

The total authorised number of ordinary shares is 14,300,000 (2014: 14,300,000) with a par value of 10p (2014: 10p) per share. All issued shares are fully paid.

Share option schemes

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



24 Issued share capital and premium (continued)

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

Long Term Incentive Plan

Grant date	8 May 2015	1 May 2014	3 May 2013	21 June 2012
Share price at grant date	547.5p	455p	345p	315p
Exercise price	10p	10p	10p	10p
Number of employees	2	2	2	2
Shares under option	30,927	34,151	43,942	96,254
Vesting period (years)	3	3	3	3
Expected volatility	15%	15%	15%	20%
Option life (years)	10	10	10	10
Expected life (years)	3	3	3	3
Risk free rate	1.4%	1.4%	1.3%	1.6%
Expected dividends expressed as a dividend yield	3.0%	3.5%	4.1%	4.9%
Fair value per option	491p	360p	266p	236p

The following options exercisable over ordinary shares were outstanding at 31 December 2015:

Number of shares	2015	2014	Exercise price	Date from which exercisable	Expiry date
The Long Term Incentive Plan	–	96,254	10p	June 2015	June 2022
The Long Term Incentive Plan	43,942	43,942	10p	May 2016	May 2023
The Long Term Incentive Plan	34,151	34,151	10p	May 2017	May 2024
The Long Term Incentive Plan	30,927	–	10p	May 2018	May 2025
	109,020	174,347			

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 2015 is set out below.

	2015		2014	
	Number '000	Weighted average exercise price	Number '000	Weighted Average exercise price
Outstanding at 1 January	174,347	10.0p	140,196	10.0p
Granted	30,927	10.0p	34,151	10.0p
Exercised	(96,254)	10.0p	–	–
Outstanding at 31 December	109,020	10.0p	174,347	10.0p
Exercisable at 31 December	–	–	–	–



24 Issued share capital and premium (continued)

There were 30,927 share options granted during the year (2014: 34,151).

2015					2014			
Weighted average exercise price	Number '000	Weighted average remaining life (expected)	Weighted average remaining life (contractual)	Weighted average exercise price	Number '000	Weighted average remaining life (expected)	Weighted average remaining life (contractual)	
0 – 50p	10p	109,020	1.2	8.2	10p	174,347	1.1	8.1

The weighted average share price for options exercised in the period was 10p (2014: nil). The total charge during the year for employee share based payment plans was £128,000 (2014: £193,000) before tax, all of which related to equity settled share based payment transactions.

25 Treasury shares

Group and Company	£'000
As at 31 December 2014	224
Re-Issue of shares	(5)
Transfer to retained earnings	(209)
Purchase of own shares	134
As at 31 December 2015	144

During the year the Group re-purchased 20,000 (2014: 36,000) 10p ordinary shares and re-issued 46,100 (2014: nil) of these under employee share option schemes. The Group currently holds 21,900 (2014: 48,000) 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 2014	953	12	114	253	1,332
Depreciation transfer – gross	(12)	–	–	–	(12)
Depreciation transfer – tax	2	–	–	–	2
Share based payment	–	–	193	–	193
Currency translation	–	17	–	–	17
Balance at 31 December 2014	943	29	307	253	1,532
Depreciation transfer – gross	(12)	–	–	–	(12)
Depreciation transfer – tax	2	–	–	–	2
Change in deferred tax rate	24	–	–	–	24
Share based payment	–	–	(123)	–	(123)
Currency translation	–	16	–	–	16
Balance at 31 December 2015	957	45	184	253	1,439

The land and buildings revaluation reserve is the reserve created when certain 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 £184,000 (2014: £307,000) represent provision for share based payment as shown in the above table.



27 Retained earnings

	Group £'000	Company £'000
At 1 January 2014	23,697	4,908
Profit for the year	3,416	1,414
Dividends paid in 2014	(1,619)	(1,619)
Depreciation transfer on land and buildings net of tax	10	–
Actuarial losses on retirement benefit obligations net of tax	(1,850)	–
At 31 December 2014	23,654	4,703
At 1 January 2015	23,654	4,703
Profit for the year	4,086	1,468
Dividends paid in 2015	(1,816)	(1,816)
Depreciation transfer on land and buildings net of tax	10	–
Share based payment	352	352
Transfer from Treasury Shares	(209)	(209)
Actuarial gains on retirement benefit obligations net of tax	104	–
At 31 December 2015	26,181	4,498

28 Commitments

Capital commitments

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

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Property, plant and equipment	1,541	807	–	–
Intangible assets: Computer software	–	4	–	–
	1,541	811	–	–

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	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Payments under operating leases charged against income during the year	80	64	–	–
Future aggregate minimum commitments under non-cancellable operating leases:				
No later than one year	82	64	–	–
Later than one year and no later than five years	43	102	–	–



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:

	2015 £'000	2014 £'000
Subsidiaries		
Management charge to Churchill China, Inc	7	6
Interest received from Churchill China (UK) Limited	5	4
Dividend received from Churchill China (UK) Limited	1,700	1,625
Loans repaid by Churchill China (UK) Limited	(576)	(173)
Loans outstanding (mainly from Churchill China (UK) Limited)	<u>4,745</u>	<u>5,310</u>

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 2015 and 2014, as disclosed in note 17.



Five Year Financial Record

	2011	2012	2013	2014	2015
	Restated*	Restated*			
	£'000	£'000	£'000	£'000	£'000
Revenue	42,296	41,435	43,157	44,518	46,829
Operating profit	2,713	2,830	3,371	4,249	4,959
Share of results of associate net of impairment	(41)	18	116	116	135
Finance cost	(234)	(131)	(117)	(48)	(80)
Profit before taxation	2,438	2,717	3,370	4,317	5,014
Income tax expense	(530)	(571)	(609)	(901)	(928)
Profit after taxation	1,908	2,146	2,761	3,416	4,086
Dividends	1,530	1,529	1,564	1,619	1,816
Net assets employed	27,653	26,461	28,432	28,406	30,925
Ratios					
Operating margin	6.4%	6.8%	7.8%	9.5%	10.6%
Earnings before interest, tax, depreciation and amortisation (£000)	4,672	4,422	4,967	5,876	6,454
Basic earnings per share (p)	17.5	19.6	25.2	31.2	37.3

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



Notice of Annual General Meeting

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 Wednesday 18 May 2016 at 12 noon for the following purposes:

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 2015 be received.
2. That a final dividend of 12.7p on each ordinary share be declared in respect of the year ended 31 December 2015.
3. That J A Roper be elected as a Director.
4. That D J S Taylor be re-elected as a Director.
5. That B M Hynes be re-elected as a Director.
6. That the Auditors, PricewaterhouseCoopers LLP, be re-appointed.
7. That the Audit Committee be authorised to fix the auditors' remuneration for the year ending 31 December 2016.
8. That the Annual Report on Remuneration for the year ended 31 December 2015 be approved.
9. That the Directors be and they are hereby authorised generally and unconditionally pursuant to section 551 of the Companies Act 2006, ("the Act"), and in substitution for any subsisting authority pursuant to that section which remains unexercised at the commencement of this meeting, which subsisting authority shall be revoked, to exercise all the powers of the Company (a) to allot shares in the Company, and (b) to grant rights to subscribe for or to convert any security into shares in the Company, ("Allotment Rights") in either case, to such persons, at such times and subject to such terms and conditions as the Directors may determine. The maximum amount of shares which may be allotted or made the subject of Allotment Rights pursuant to this authority shall be shares with an aggregate nominal value of £336,207 provided that (unless previously revoked varied or renewed) this authority shall expire at the conclusion of the next Annual General Meeting or on 30 June 2017, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after such expiry.

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

10. That 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 either under the authority conferred by resolution 9 or by way of a sale of treasury shares, 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 any rights issue or open offer (each as referred to in the London Stock Exchange's AIM Rules for Companies) or any other pre-emptive offer that is open for acceptance for a period determined by the Directors to the holders of ordinary shares on the register on any fixed record date in proportion to their holdings of ordinary shares (and, if applicable, to the holders of any other class of equity security in accordance with the rights attached to such class), subject in each case to such exclusions or other arrangements as the Directors may deem necessary or appropriate in relation to fractions of such securities, the use of more than one currency for making payments in respect of such offer, any such shares or other securities being represented by depositary receipts, treasury shares, any legal or practical problems in relation to any territory or the requirements of any regulatory body or any stock exchange; and
 - (ii) the allotment of equity securities (otherwise than as mentioned in sub-paragraph (i) of this resolution), up to an aggregate nominal amount of £109,862.

Unless previously renewed, varied or revoked, this power shall expire when the authority conferred on the Directors by resolution 9 expires, save that, before the expiry of this power, the Company may make an offer or agreement which would or might require equity securities to be allotted after this authority expires.



11. 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 1,098,623 ;
- (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, shall be an amount equal to 5 per cent above the average of the middle market quotations for an Ordinary Share as derived from the AIM 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.

Unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting. 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.

D J S Taylor

Company Secretary

Dated

19 April 2016

Registered Office

No.1, Marlborough Way

Tunstall

Stoke-on-Trent

ST6 5NZ

Registered Number 02709505

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

- 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 member 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 member. A proxy need not be a member 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 0371 384 2287. If calling from overseas, please call +44 (0)121 415 7047. Lines are open 8.30am – 5pm, Monday – Friday. To appoint more than one proxy, you may photocopy the proxy form.
- 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 16 May 2016. 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.
- The return of a completed form of proxy will not prevent a member attending the AGM and voting in person if he/she wishes to do so.
- 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.
- 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), members must be registered in the Register of Members of the Company at 6pm on 16 May 2016 (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. Voting at the meeting will be conducted by way of a show of hands, unless a poll is correctly called for.
- As at 19 April 2016 (being the last practicable date prior to publication of this Notice), the Company's total issued equity share capital consists of 11,008,130 ordinary shares, carrying one vote each. The Company holds 21,900 ordinary shares in treasury. The total number of voting rights in the Company is 10,986,230.
- 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.
- Copies of the Directors' Service Contracts and the Non-executive Directors' letters 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.

- Resolution 3: J A Roper 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 J A Roper will bring additional knowledge of and experience in sales and marketing to the Board and will improve the effectiveness of the operation of the Board in its management of the Group's strategy and operations.

- 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. DJS Taylor and BM Hynes are retiring by rotation and resolutions 4 and 5 respectively seek approval for their 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.

- Resolution 8: this is a resolution to approve the Annual Report on Directors' Remuneration on pages 31 to 34 of the Annual Report. 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 26 to 30 of the Annual Report although the Policy is not the subject matter of Resolution 8.

- Resolution 9 is an ordinary resolution authorising the Directors at any time prior to 30 June 2017, (or, if earlier, the conclusion of the next Annual General Meeting) to allot shares (and to grant rights to subscribe for, or convert any securities into, shares up to an aggregate nominal value equivalent to approximately 1/3 of the issued share capital (excluding shares held in treasury) of the Company as at 19 April 2016. The Directors have no present intention to exercise this authority which is designed to preserve flexibility.

The number of treasury shares held by the Company as at 19 April 2016 was 21,900 which represents 0.2% of the issued share capital as at that date.

- Resolution 10: under Section 570 of the Act, when new shares are allotted, or treasury shares are sold, for cash, they must, subject to certain limited exceptions, 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, open offer 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 £109,862 (representing approximately 10% of the total issued equity share capital, excluding shares held in treasury, as at 19 April 2016) (being the last practicable date prior to the publication of this Notice) as if the pre-emption rights of Section 570 did not apply.

In line with The Pre-emption Group's revised Statement of Principles on the disapplication of pre-emption rights (March 2015), this year the Directors are seeking power to allot ordinary shares, or sell treasury shares, for cash (otherwise than in connection with a rights issue or similar pre-emptive issue) up to a maximum nominal amount of £109,862, representing approximately 10% of the Company's issued share capital as at 19 April 2016 (being the latest practicable date prior to publication of this Notice). Whilst the Directors may use up to one-half of this amount to issue shares for cash non-pre-emptively in any circumstances, the Board confirms its intention to use the other half only in connection with an acquisition or a specified capital investment which is announced contemporaneously with the issue, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue.

The Directors have no immediate plans to make use of this power. In line with best practice, the Company confirms that it has issued 1.2% of its issued share capital (excluding shares held in treasury) 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 shares held in treasury) within a rolling 3 year period.

This power shall cease to have effect at the conclusion of the next AGM or on 30 June 2017, whichever is the earlier.



6. Resolution 11 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 1,098,263 ordinary shares (representing approximately 10 per cent of the issued share capital excluding shares held in treasury as at 19 April 2016 (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.

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.







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China plc

Churchill China plc

No.1 Marlborough Way, Tunstall, Stoke-on-Trent, ST6 5NZ, England

T: +44 (0) 1782 577566 www.churchill1795.com

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