CHURCHILL

2709505

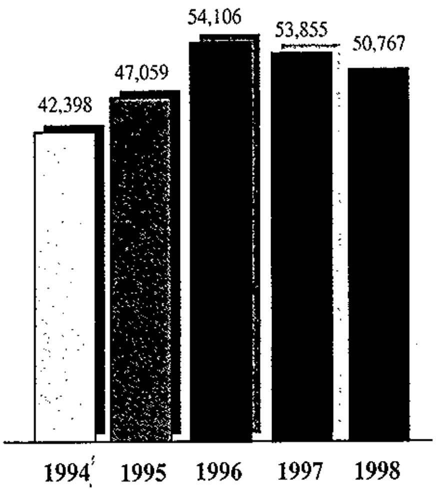
Financial Highlights

for the year ended 31 December 1998

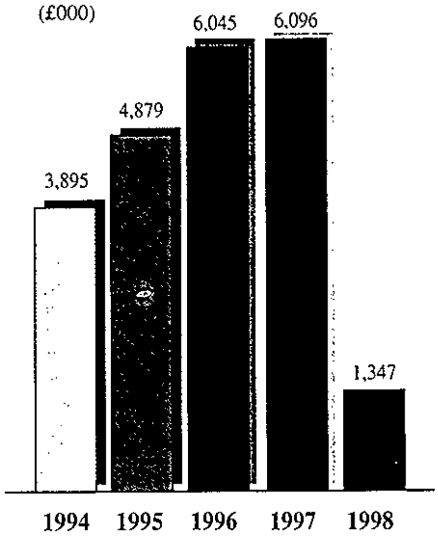
	1998	1997
	£'000	£'000
Results		
Turnover - continuing operations	50,767	53,855
Operating profit - continuing operations	1,188	5,720
Share of operating profit of associate	116	173
Interest receivable	91	217
Interest payable and similar charges	(48)	(14)
Profit on ordinary activities before profit on disposal of fixed assets and income from fixed asset investment	1,347	6,096
Profit on disposal of fixed assets	115	-
Income from fixed asset investment	6	24
Profit on ordinary activities before taxation	1,468	6,120
Dividends	319	1,520
Key ratios		
Operating margin	2.3%	10.6%
Basic earnings per share	9.4p	40.1p
Adjusted earnings per share	8.3p	39.9p
Diluted basic earnings per share	9.4p	39.4p
Diluted adjusted earnings per share	8.3p	39.2p
Dividends per share	3.0p	14.3p

Five Year Performance

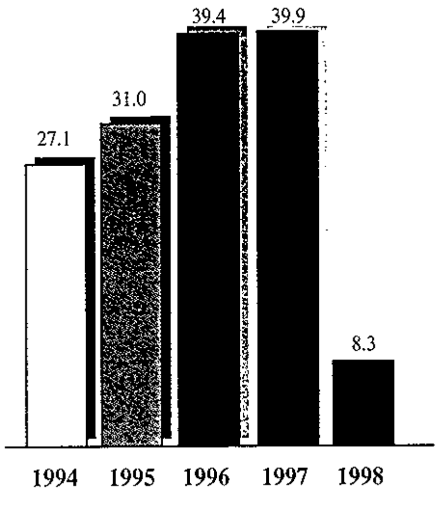
TURNOVER
(£000)



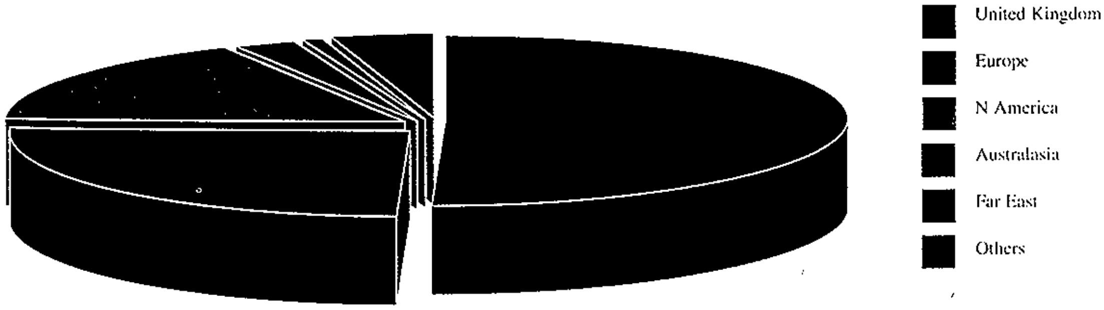
PROFIT BEFORE DISCRETIONARY BONUSES, PROFIT ON DISPOSAL OF FIXED ASSETS AND INCOME FROM FIXED ASSET INVESTMENT
(£000)



ADJUSTED EARNINGS PER SHARE (p)



Analysis of Sales by Geographical Area



CHURCHILL

Churchill China plc
Directors, secretary and advisers

EXECUTIVE DIRECTORS

E S Roper (Chairman)

M J Roper

A D Roper

D J S Taylor

P D Deighton

D M O'Connor

NON-EXECUTIVE DIRECTORS

R L Johnson* •

D Mapp* •

R S Kettel* •

SECRETARY
AND REGISTERED OFFICE

D J S Taylor ACA

Marlborough Works

High Street

Tunstall

Stoke-on-Trent

Staffordshire

ST6 5NZ

AUDITORS

PricewaterhouseCoopers

Temple Court

35 Bull Street

Birmingham

B4 6JT

SOLICITORS

Addleshaw Booth & Co.

100 Barbirolli Square

Manchester

M2 3AB

STOCKBROKERS AND ADVISERS

ABN AMRO Hoare Govett

4 Broadgate

London

EC2M 7LE

BANKERS

Lloyds Bank plc

41 Market Street

Longton

Stoke-on-Trent

Staffordshire

ST3 1BN

REGISTRARS

Lloyds Bank plc

54 Pershore Road South

Kings Norton

Birmingham

B30 3EP

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

CHURCHILL

Chairman's Statement

My first review as Chairman follows 18 months of difficult trading and disappointing results. Hard decisions and a clear direction for the future development of the Company are essential in a market place which remains extremely challenging for UK manufacturers. I appreciate that shareholders will feel disquiet about the current situation, however, although the challenges are considerable, I can reassure them and everyone at Churchill that the Board is taking decisive action to ensure the long term success of the Group. Our greatest asset continues to be our people, who have demonstrated extreme resourcefulness, flexibility and commitment through this period of change for the industry.

The prolonged overvaluation of sterling continues to have a major impact on export sales and represents the main cause of margin erosion. In Europe, Group sales fell by £2m to £12.9m, but more importantly margins fell by 15%. Similarly in Asia, the economic turmoil hit our exports to the region and also depressed sales to neighbouring areas such as Australasia. It is worth noting that the UK pottery industry traditionally exports approximately 50% of its production but sources the majority of its materials from the home market. Appreciation of sterling therefore has no benefits for our industry.

Turnover fell to £50.8m from £53.9m, profit before taxation and exceptional items fell to £1.3m from £6.1m in 1997. Adjusted earnings per share fell to 8.3p (1997: 39.9p). Group operating margins fell to 2.3% from 10.6%. Cash balances fell from £3m to net borrowings of £1.1m, following net capital investment of £4.4 million (1997: £4.1m). In light of the Group's second half performance and the current uncertain outlook in trading conditions the Board does not recommend the payment of a final dividend (1997 : 9.4p per share) giving a total dividend for the year of 3.0p per share (1997 : 14.3p).

Margins in our Hotelware division were further depressed as a result of low yields from new machines which took longer than expected to reach performance targets. The new production team, appointed in June 1998, spent nearly six months rectifying both the equipment and new processes. Yield and productivity are now at consistent, higher levels. The implementation of new procedures by the team provides confidence that this position will continue.

The growth of dining out in the UK and the changing patterns of dining in at home appears to be part of a permanent cultural change which brings mixed blessings to Churchill. In Hotelware or 'Dining Out' as we will now increasingly refer to it, demand continues to grow from hotels, restaurants and pubs although there are intermittent slowdowns. Recent acceleration in the growth of themed and ethnic outlets have contributed to demand and look set to be an area of considerable opportunity for Churchill over the coming years. 'Dining Out' remains a buoyant market with substantial barriers to entry. It takes a long term commitment, as our slow build up in the USA, now in its fourth year, demonstrates.

In contrast, the Tableware market or 'Dining In' as we now categorise it, has seen changes in consumer lifestyle which are leading to evermore casual eating habits and as a result, a detrimental effect on demand. Formal entertaining and family meals are giving way to more casual meals and take-aways. These trends have channelled demand towards casual designs which comprise fewer pieces and typically have a shorter life cycle.

In response to a changing market, we decided at the beginning of 1998 to instigate a programme of flexible manufacturing within our factories. This gives us the ability to transfer productive capacity from 'Dining In' to 'Dining Out' without the need for capital expenditure. Whilst endorsing this strategy, the Board has subsequently concluded that the process will need further acceleration.

Even more fundamentally, the Board has concluded that both the strength of sterling and the change to lifestyles can no longer be considered temporary phenomena. In consequence, we have commenced a long term strategic review of the business and I expect to report on those conclusions in detail at the time of our Interim Statement in September.

CHURCHILL

Whilst I cannot pre-judge the outcome of this review, it is based on the aim of establishing an acceptable and sustainable level of profit within the 'Dining In' division. In the meantime, I can confirm that a decision has already been made to permanently reduce our volume of earthenware mugs and this has been replaced with 'Dining Out' production. The strategic review will naturally centre on the larger issue of 'Dining In' and focus our minds on how we can once again revert to the path of achieving a 10% margin on this range of products.

A general programme of cost reduction, initiated during 1998, has been a painful experience throughout all layers of the Group. These steps have been an essential process to deal with the short-term reality of the market place, whilst the medium to long-term strategies are clearly formulated.

Outsourcing of products in both divisions has been under investigation over the last twelve months and will form an increasing part of our trading activities for the future. On the 'Dining Out' side, outsourcing will enable Churchill to offer a more comprehensive portfolio of products to caterers. For the 'Dining In' division it will be an opportunity to develop a range of bespoke designs and shapes to replace some of the competitively priced volumes we have lost over the last two years as a consequence of sterling's strength.

Churchill remains committed to design. 1998 saw the introduction of exciting and highly successful products in both divisions and more have been launched or planned for 1999. In July 1998 we expanded our bone china range through the acquisition of Wren Giftware. It has now been successfully absorbed into our Whieldon Road facilities alongside the Queen's business, where we shall now concentrate on the middle to top end of the handmade bone china mug business.

The executive team has been strengthened. Paul Deighton has been appointed to the Main Board as Group Production Director, and David O'Connor joined at the same time as Group Distribution and Logistics Director. Rodney Kettel, formerly a partner at PricewaterhouseCoopers in Birmingham has become a non-Executive Director. Michael Roper, who has served the Group throughout his working life, will retire from the Board at the next Annual General Meeting in May. The Board as a whole would like to record their thanks for the enormous contribution Michael has made to the Company over the last 40 years.

Completing the Board changes, Michael Swingler stepped down in February 1999 as Group Chairman. He joined the Board in 1992 as a non-Executive Director. Michael's contribution will be greatly missed. The very best wishes of the Board go with him for the future.

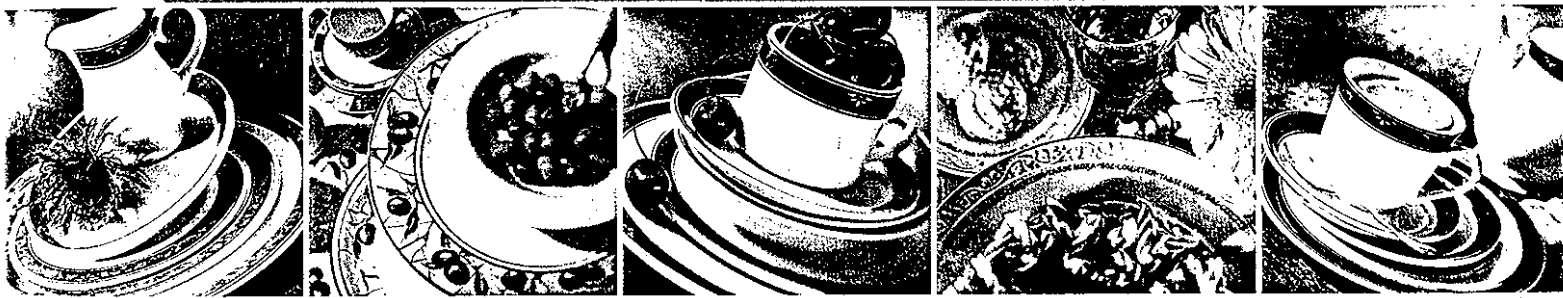
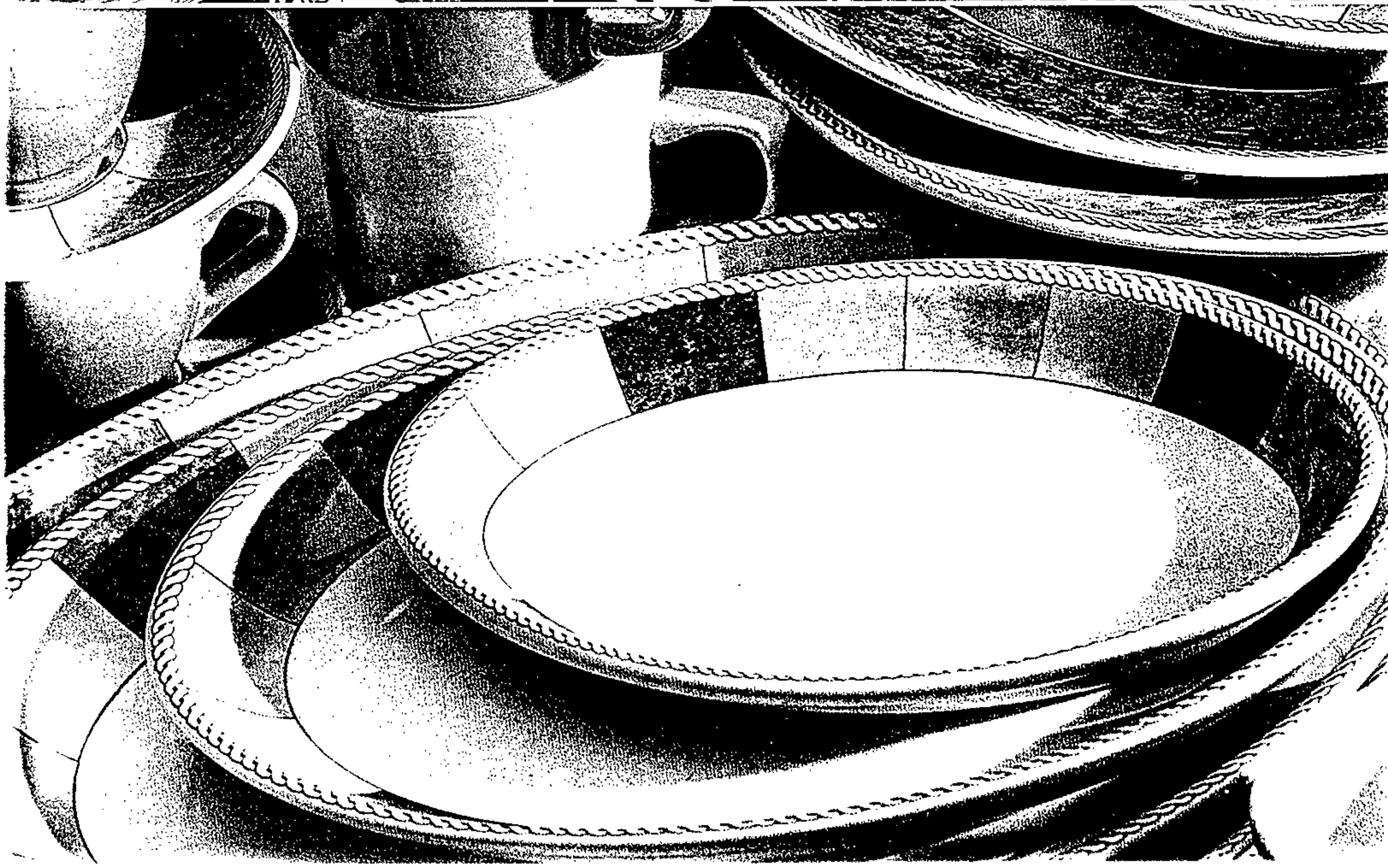
Salsa

Prospects

The strengths of Churchill China remain. We are one of the most efficient producers in the UK. We have a strong and experienced management team. Product development is on a continuous basis, with designs closely reflective of changing customer tastes and demands. Most importantly, we keep close to our customers and our distribution channels.

1998 saw us successively revise downward our profit expectations for the year, as it took time to fully appreciate fundamental changes in the world markets. In the first half of 1999 the Group is likely to see a further deterioration in profitability but, with the changes we have in process, we expect recovery to come through in the second half of the year. This pattern will largely be driven by changes at 'Dining In', while 'Dining Out' enjoys an improvement in its position throughout the year as we move to make each division more profitable.

Stephen Roper
Chairman

CHURCHILL

dining™

Turnover in the 'Dining In' division fell almost 8% to £32.3m from £35m. The operating loss was £0.6m.

UK sales fell by 12% to £12.9m and exports by 5% to £19.4m. As with 'Dining Out', the USA was the most buoyant market with sales up 68%, but elsewhere European sales fell by 20% and Asian sales by 67% as currency strength and economic turmoil took their respective tolls.

At the beginning of 1998 we launched *Out of the Blue* on the wide rim Marlborough shape. I am pleased to report that this new approach to the classical blue and white theme exceeded our expectations and is now widely distributed throughout most of our export markets. We intend to further develop this niche area of the market as traditional and classical designs give a longer life cycle than casual designs. In January 1999 we launched *Prague*, a classical new design from the Ports of Call range by Jeff Banks. Very significantly, this pattern represents a further upward move in the middle market.

In July 1998 we acquired the business and certain assets of Wren Giftware for a cash consideration of £562,000. Wren has been successfully integrated into our bone china operation, Queen's. Wren's range and well-established brand have combined well with Queen's, strengthening the Group's position in the UK high street as a leading supplier of bone china mugs.

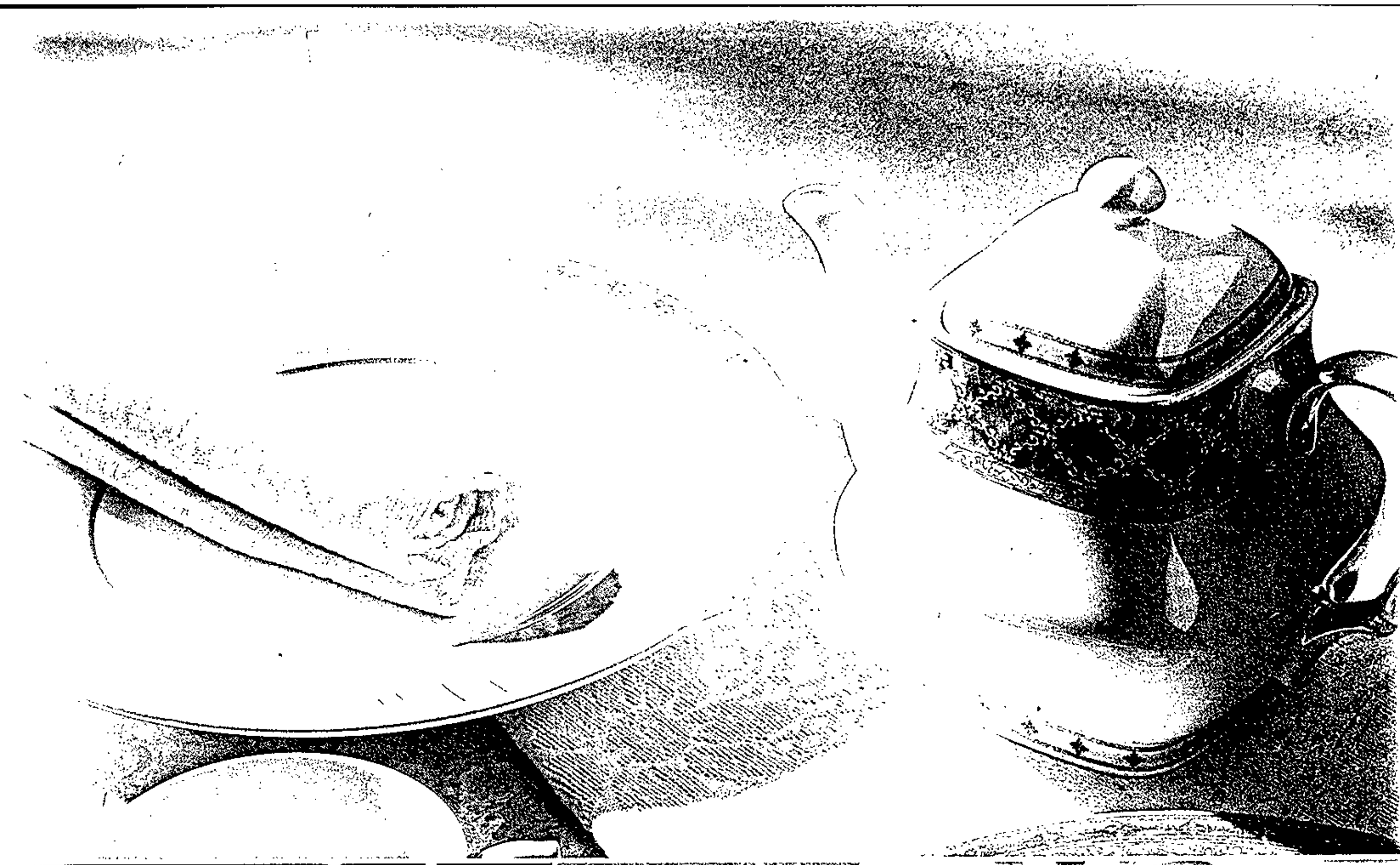
The Whieldon Road production facilities are now focused on the manufacturing and decorating of cast bone china mugs for the top end of the market. Quality of design and speed to market have always been essential to our position in the high street. Outsourcing will add a further competitive edge to this ability.

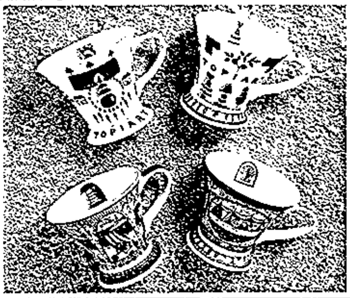
The strategic review will not only look at factory capacity and outsourcing, but will also consider our ability to further develop our own handwriting in classical and traditional products. The considerable investment in new equipment over the last five years has given Churchill an edge in competitive manufacturing facilities. That capacity must now be harnessed to provide, not only competitive product in the casual arena, but a point of difference from our competitors.

To re-establish the profitable and successful basis which the 'Dining In' division enjoyed until 1997, will take several months of change and adjustment. Throughout this process, design, distribution and margin will be our watch-words. As an efficient producer we start from a good position, but inevitably change can be painful. I am confident Churchill will emerge from this process, fitter and more robust with a more attractive future.

Main:
Prague

Inset Left to Right:
Out of the Blue
Goddard Mugs
Square Bands





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Directors' report

for the year ended 31 December 1998

The Directors present their report and the audited financial statements for the year ended 31 December 1998.

Principal activities, operating and financial review

The consolidated profit and loss account for the year is set out on page 20.

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

A review of the operations of the Group during the year and its future prospects are given in the Chairman's Statement and Operational Review on page 4.

Dividends and transfers to reserves

The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 1998. An interim dividend was paid during the year as shown below.

	1998	1997
	£'000	£'000
Ordinary dividend:		
Interim paid 3.0p (1997: 4.9p) per 10p ordinary share	**319**	520
Final proposed 0.0p (1997: 9.4p) per 10p ordinary share	**–**	1,000
	319	1,520

After payment of the above dividend, the retained profit for the financial year of £681,000 (1997: £2,740,000) will be transferred to the Group's reserves.

Directors

The Directors of the Company who have served during the year are as follows:

M Swingler MBE *	
E S Roper	
M J Roper	
A D Roper	
D P Heywood	(resigned 20 April 1998)
D J S Taylor	
R L Johnson *	
H Robinson OBE *	(resigned 30 January 1998)
D Mapp *	(appointed 13 May 1998)

* Non executive

The Directors retiring by rotation are E S Roper and D J S Taylor who being eligible, offer themselves for re-election. The unexpired terms of the service contracts of the executive Directors offering themselves for re-election is twelve months.

Directors' report

(continued)

On 8 January 1999 P D Deighton and D M O'Connor were appointed as Directors of the Company and in accordance with the Company's articles retire at the next annual general meeting. On 11 February 1999 R S Kettel was appointed as a Director of the Company and in accordance with the Company's articles retires at the next annual general meeting. All offer themselves for re-election.

On 11 February 1999 M Swingler MBE retired as a Director of the Company.

With the exception of the above, 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.

Details of the interests of the Directors and their immediate families and family trusts are set out on page 12.

Robert Johnson, non executive Director, aged 57, has extensive experience within the ceramics industry and was previously a director of Waterford Wedgwood plc where he was managing director of its Johnson Brothers division for 15 years. He joined the Board in 1993.

Derek Mapp, non executive Director, aged 48, has extensive experience in the hospitality industry and was formerly Chief Executive of Tom Cobleigh plc. He joined the Board in 1998. Other current responsibilities are as Chairman of Leap Frog Day Nurseries, Chairman of the East Midlands Development Agency and a non executive director of Taylor and Francis plc.

Rodney Kettel, non executive director, aged 55, was formerly a partner in PricewaterhouseCoopers, Chartered Accountants, Birmingham, and has extensive experience in advising listed companies. He joined the Board in 1999.

Political and charitable contributions

Contributions made by the Group during the year for political and charitable purposes were £Nil (1997: £Nil) and £14,000 (1997: £14,000) respectively.

Insurance of Directors

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

Employees

The Group's policy is to consult and discuss with employees at regular briefing sessions and through unions, matters likely to affect employees' interests.

Information on matters of concern to employees is given through information bulletins, team briefings and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance.

1998 was the sixth year of operation of profit related pay schemes within the Group.

The Group continues to develop its personnel policies in line with the growth of the business. The Group participates in the Investors in People programme and a number of employees have achieved non vocational qualifications which allow them to fully realise their potential within the Group.

Directors' report

(continued)

Employees *(continued)*

The Group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Taxation status

The Company was not a close Company within the meaning of the Income and Corporation Taxes Act 1988 and this position has not changed since the end of the financial year.

Directors interests

The interests of the Directors and their immediate families and family trusts at 31 December 1998 in the 10p ordinary shares of the Company were as follows:

	1998	1997
M Swingler MBE	**5,357**	5,357
E S Roper	**1,268,295**	1,243,370
M J Roper	**1,183,120**	1,173,120
A D Roper	**2,077,430**	2,072,079
D J S Taylor	**1,750**	892
R L Johnson	**1,000**	1,000
	4,536,952	4,495,818

Non-beneficial shareholdings included above at 31 December 1998 were M J Roper, 311,380 10p ordinary shares, as trustee of various trusts established for the benefit of his children and A D Roper, 1,410,000 10p ordinary shares, as trustee of various trusts established for the benefit of his children.

There has been no change in the interests set out above between 31 December 1998 and 17 March 1999.

Share options

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

D J S Taylor	Date of grant	Number of options 31 December 1998	Number of options 31 December 1997	Exercise price p	Date from which exercisable	Expiry date
Executive scheme	03.10.94	35,716	35,716	280	Oct 1997	Oct 2004
Sharesave scheme	28.11.94	605	605	285	Nov 1999	May 2000
Executive scheme	18.04.96	10,000	10,000	505	Apr 1999	Apr 2006
Unapproved Executive scheme	18.04.98	5,000	–	342	Apr 2001	Apr 2008

Directors' report

(continued)

Share options *(continued)*

5,000 share options at an exercise price of 342p per share were granted to D J S Taylor under the Unapproved Executive Share Option Scheme on 18 April 1998. No share options lapsed during the year.

No other Directors serving during the year have been granted share options in the shares of the Company.

The market price of the Company's shares at the end of the financial year was 87.5p. The range of prices for the year to 31 December 1998 was 87.5p to 455p per ordinary share.

Options granted after 1 November 1994 under the Executive Share Option Scheme and Unapproved Executive Share Option Scheme may only be exercised subject to the satisfaction of performance criteria in relation to sustained improvement in the financial performance of the Group.

Phantom share scheme

On 13 May 1998 the Churchill China plc Phantom Share Scheme was established to provide a mechanism to provide an incentive scheme for directors and senior managers without leading to the dilution of shareholder's investments in the light of adverse share price movements associated with the relative illiquidity of the Company's shares.

The scheme, which is administered by the Remuneration Committee, links bonus payments to long term improvement in both share price and earnings growth and is subject to performance conditions. Bonus payments are subject to a maximum cap.

Phantom shares were granted to Directors in the year as follows:

	Date of grant	Number of Phantom shares	Base value	Cap value	Date from which exercisable	Expiry date
E S Roper	04.06.98	5,000	287.5p	500p	June 2001	June 2003
A D Roper	04.06.98	5,000	287.5p	500p	June 2001	June 2003
D J S Taylor	04.06.98	5,000	287.5p	500p	June 2001	June 2003

Substantial shareholdings

The Directors have been advised of the following individual interests, or group of interests, held by persons acting together, which at 15 March 1999 exceeded 3% of the Company's issued share capital:

Shareholder	**Number of ordinary shares**	**Percentage**
Popeshead Nominees Limited	895,000	8.4%
Trustees of Miss SMR Roper	400,280	3.8%
Electricity Supply Pension Scheme	375,000	3.5%
AMP Asset Management	344,290	3.2%

Directors' report

(continued)

Year 2000 and Euro compliance

The Group has been working on a programme to provide reasonable, but not absolute, assurance that key accounting and business systems and business critical machinery and equipment will be millennium compliant. A programme designed to assess millennium compliance and to propose corrective action where necessary has been in place since 1996 and is at present on target for completion in 1999. The suppliers of business critical systems and equipment have been contacted and programmes to demonstrate compliance developed. Detailed testing of these systems has been in progress since 1997.

No material external costs have been incurred exclusively in respect of the above.

The Group's commercial and accounting systems have been modified to allow the Group, with its significant sales to Euro zone countries, to trade efficiently following the introduction of the Euro. Further software changes will be made in advance of any entry to the Euro zone by the United Kingdom.

Suppliers

The Group agrees terms and conditions covering its business with its suppliers at the time of each transaction or in advance. In normal circumstances payment is generally made in accordance with these terms, subject to suppliers meeting the agreed terms and conditions.

The Group's average creditor payment period at 31 December 1998 was 47 days (1997: 44 days).

Corporate Governance

The Board supports the standards required in the Principles of Good Governance and Code of Best Practice ("the Combined Code"). During the year ended 31 December 1998 the company was in full compliance with the Code provisions except in a limited number of areas as discussed in the following paragraphs.

The Board of Directors

The Board is currently composed of six executive and three non executive directors and meets at least eleven times per year. Following the retirement of M Swingler, who acted as non executive Chairman, in February 1999, E S Roper has been appointed Executive Chairman and is responsible for strategic planning and relationships with investors. A D Roper acts as Group Managing Director and is responsible for the operational performance of the Group. 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, D Mapp, has been formally appointed.

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.

Directors' report

(continued)

Corporate Governance *(continued)*

There are two principal sub-committees of the Board.

The Audit Committee, which is wholly composed of the non executive Directors listed on page 3, meets at least twice per year to receive reports from executive management and external auditors and is normally attended by the Finance Director.

The Remuneration Committee is wholly composed of the non executive Directors listed on page 3 and is normally attended by the Executive Chairman who takes no part in discussions on his own remuneration.

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 will continue to report on internal financial control only. A report will be given on the review of internal controls as required by provision D2.1 of the Combined Code when guidance on the interpretation of the provision is available.

Internal Finance Control

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

Going Concern

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

Directors Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:-

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

Directors' report

(continued)

Corporate Governance *(continued)*

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

Report of the Remuneration Committee

The Group has complied throughout the year with Section A of the best practices provisions annexed to the Listing Rules of the London Stock Exchange.

Terms of Reference for the Remuneration Committee are listed below:

- To determine on behalf of the Board and the Shareholders the Company's broad policy for Executive reward and the entire individual remuneration including terms of service for each of the Executive Directors (and as appropriate other nominated Senior Executives).

- In doing so, to give the Executive appropriate encouragement to enhance the Company performance and ensure that they are fairly but reasonably rewarded for their individual responsibilities, abilities and contribution.

- To report and account directly to the Shareholders, on behalf of the Board, for their decisions.

At the same time the Remuneration Committee issued a policy statement which is endorsed by the Board. In determining its policy the Committee has given full consideration to Section B of the best practices provisions annexed to the Listing Rules of the London Stock Exchange. The two elements of this statement are:

- Total rewards to Executive Directors are intended to provide a comprehensive benefit package which both attracts and motivates individuals of calibre and experience to achieve continuous improvement in shareholder benefits (whilst at all times maintaining the highest levels of integrity). Reflecting individual responsibilities, abilities, expertise and preferences, a balance is sought to reflect guaranteed income through salary and pension with incentives aligned to measurable criteria to cover both short and longer term periods.

- Total rewards will be set with acknowledgement of comparable rewards in industry - related public companies and those of similar scale and also with sensitivity to subordinate staff within the Company with whom the packages will as far as possible be consistent and fair.

Directors' report

(continued)

Directors' emoluments

Emoluments excluding pension contributions of the Directors were as follows:

	Salary/ fees £	Performance bonuses £	Benefits in kind £	Other payments £	**1998 Total £**	1997 Total £
E S Roper	115,778	–	9,819	–	**125,597**	124,877
M J Roper	48,675	–	9,848	–	**58,523**	58,481
A D Roper	109,086	–	8,590	–	**117,676**	115,969
D P Heywood	30,500	–	2,020	9,100	**41,620**	91,375
D J S Taylor	81,345	–	5,290	–	**86,635**	80,087
M Swingler MBE	30,000	–	–	–	**30,000**	30,000
R L Johnson	15,756	–	–	–	**15,756**	14,750
H Robinson OBE	1,250	–	–	–	**1,250**	15,000
D Mapp	10,667	–	–	–	**10,667**	–
	443,057	–	35,567	9,100	**487,724**	530,539

In addition to the above, R L Johnson has an interest in a contract with RLJ Associates whereby they provide consultancy services to the Group. The fee paid in respect of this contract during the year was £59,000 (1997: £53,000).

Performance bonuses are earned on a basis combining increases in Group profitability, increases in subsidiary profitability and the achievement of defined personal performance objectives. Performance bonuses are capped at 20% of salary.

Benefits in kind include the provision of car and fuel benefits, mobile telephone benefits and medical insurance.

Other payments represent amounts paid on termination of the service contract of D P Heywood.

Pension benefits earned by Directors were as follows:

	Increase in benefit over the year £	Capital value of increase in benefit £	Accumulated total benefit £
E S Roper	2,167	40,657	66,688
M J Roper	2,408	47,996	74,098
A D Roper	1,624	23,972	49,962
D P Heywood	240	(1,301)	12,100
D J S Taylor	1,796	7,530	8,224
	8,235	118,854	211,072

Directors' report
(continued)

Directors' emoluments *(continued)*

The increase in benefit over the year excludes any increase for inflation.

The capital value of the increase in benefit has been calculated on the basis of actuarial advice in accordance with actuarial Guidance Note GN11, less Director's contributions.

The accumulated total benefit is the amount of pension that would be paid each year on retirement based on service to 31 December 1998.

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

All executive Directors are members of the Churchill Retirement Benefit Scheme. The pension benefits of E S Roper, M J Roper and A D Roper are funded to allow retirement on two thirds of final salary on attaining the age of 60 years. E S Roper, M J Roper and A D Roper do not contribute to the Scheme. The pension benefit of D J S Taylor is funded to allow retirement between the ages of 60 and 65 with a pension based on accrued service. D J S Taylor contributed 6% of pensionable earnings towards Scheme benefits. Only basic salary is pensionable.

E S Roper, M J Roper, A D Roper and D J S Taylor have contracts of service which can be terminated by the Company or the Director with a notice period of twelve months. P D Deighton has a contract of service which can be terminated by the Company with a notice period of twelve months or the Director with a notice period of six months. D M O'Connor has a contract of service which can be terminated by the Company with a notice period of six months or the Director with a notice period of three months.

Auditors

Coopers & Lybrand merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the Directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers as auditors to the Company will be proposed at the annual general meeting.

By order of the Board

D J S Taylor
Secretary
17 March 1999

Report of the auditors to the members of Churchill China plc

We have audited the financial statements on pages 20 to 39 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 26 to 27.

Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Annual Report, including as described on pages 15 to 16 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 14 to 16 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its internal controls.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers

Chartered Accountants and
Registered Auditors

Birmingham

17 March 1999

CHURCHiLL

Consolidated profit and loss account

for the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
Turnover - continuing operations	2,3	**50,767**	53,855
Operating profit - continuing operations	2,4	**1,188**	5,720
Share of operating profit of associate		**116**	173
Profit on disposal of fixed assets	6	**115**	–
Income from fixed asset investment	7	**6**	24
Interest receivable	8	**91**	217
Interest payable and similar charges	9	**(48)**	(14)
Profit on ordinary activities before taxation		**1,468**	6,120
Tax on profit on ordinary activities	11	**(468)**	(1,860)
Profit on ordinary activities after taxation		**1,000**	4,260
Dividends	12	**(319)**	(1,520)
Retained profit for the year		**681**	2,740
Earnings per ordinary share			
Basic	13	**9.4p**	40.1p
Adjusted	13	**8.3p**	39.9p
Diluted earnings per share			
Basic	13	**9.4p**	39.4p
Adjusted	13	**8.3p**	39.2p

The Group has no recognised gains and losses other than those included in the profit and loss account above and therefore no separate statement of recognised gains and losses has been presented.

Note of historical cost profits and losses

for the year ended 31 December 1998

	1998 £'000	1997 £'000
Reported profit on ordinary activities before taxation	**1,468**	6,120
Difference between historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	**39**	39
Historical cost profit on ordinary activities before taxation	**1,507**	6,159
Historical cost profit for the year retained after taxation and dividends	**720**	2,779

CHURCHILL

Consolidated balance sheet

as at 31 December 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Intangible assets	14	**310**	–
Tangible assets	15	**22,311**	21,110
Investments	16	**832**	742
		23,453	21,852
Current assets			
Stocks	17	**6,052**	4,991
Debtors: amounts falling due within one year	18	**9,967**	11,106
Cash at bank and in hand		**10**	3,021
		16,029	19,118
Creditors: amounts falling due within one year	19	**(9,276)**	(11,738)
Net current assets		**6,753**	7,380
Total assets less current liabilities		**30,206**	29,232
Provisions for liabilities and charges	22	**(253)**	–
Net assets		**29,953**	29,232
Capital and reserves			
Called up share capital	24	**1,065**	1,064
Share premium account	28	**1,960**	1,921
Revaluation reserve	28	**3,201**	3,240
Other reserves	28	**253**	253
Profit and loss account	28	**23,474**	22,754
Equity shareholders' funds	26	**29,953**	29,232

The financial statements on pages 20 to 39 were approved by the Board of Directors on 17 March 1999 and were signed on its behalf by:

E S Roper
D J S Taylor } **Directors**

CHURCHiLL

Company balance sheet

as at 31 December 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Investments	16	**3,048**	3,048
Current assets			
Debtors: amounts falling due after one year	18	**13,679**	9,721
Debtors: amounts falling due within one year	18	**193**	416
Cash at bank and in hand		**3,190**	2,683
		17,062	12,820
Creditors: amounts falling due within one year	19	**(5)**	(1,055)
Net current assets		**17,057**	11,765
Total assets less current liabilities		**20,105**	14,813
Creditors: amounts falling due after more than one year	21	**-**	(500)
Net assets		**20,105**	14,313
Capital and reserves			
Called up share capital	24	**1,065**	1,064
Share premium account	28	**1,960**	1,921
Profit and loss account	28	**17,080**	11,328
Equity shareholders' funds		**20,105**	14,313

The financial statements on pages 20 to 39 were approved by the Board of Directors on 17 March 1999 and were signed on its behalf by:

E S Roper
D J S Taylor } **Directors**

CHURCHILL

Consolidated cash flow statement

for the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
Net cash inflow from continuing operating activities (reconciliation to operating profit on page 25)		**3,847**	7,180
Returns on investments and servicing of finance			
Interest received		**91**	217
Interest paid		**(31)**	(12)
Dividends received from other investments		**6**	24
Net cash inflow from returns on investments and servicing of finance		**66**	229
Taxation			
United Kingdom corporation tax paid		**(1,772)**	(1,754)
Capital expenditure			
Purchase of tangible fixed assets		**(4,672)**	(4,165)
Sale of tangible fixed assets		**283**	59
Net cash outflow from capital expenditure		**(4,389)**	(4,106)
Acquisitions			
Purchase of business		**(562)**	–
Equity dividends paid		**(1,319)**	(1,445)
Financing			
Issue of ordinary shares		**40**	40
Repayment of loan		**(48)**	(47)
Payment of principal under finance leases		**(2)**	(2)
Net cash outflow from financing	27	**(10)**	(9)
(Decrease)/increase in net cash		**(4,139)**	95

Reconciliation of operating profit to net cash inflow from continuing operating activities

for the year ended 31 December 1998

	1998 £'000	1997 £'000
Continuing operating activities		
Operating profit	1,188	5,720
Depreciation on tangible fixed assets	2,954	2,501
(Profit)/loss on disposal of tangible fixed assets	(9)	21
Goodwill amortisation	14	–
(Increase)/decrease in stocks	(806)	450
Decrease/(increase) in debtors	793	(763)
Decrease in creditors	(287)	(749)
Net cash inflow from continuing operating activities	3,847	7,180

Reconciliation of net cash flow to movement in net (debt)/cash

	1998 £'000	1997 £'000
(Decrease)/increase in net cash during the period	(4,139)	95
Cash outflow from decrease in debt and lease financing	50	49
Movement in net cash funds during the period	(4,089)	144
Net cash at the start of the period	2,971	2,827
Net (debt)/cash at the end of the period	(1,118)	2,971

CHURCHiLL

Notes to the consolidated financial statements

for the year ended 31 December 1998

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, with the exception of Financial Reporting Standards 10 and 14 adopted for the first time, is set out below. The impact of the adoption of the new accounting standards is dealt with in notes 13 and 14.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

Basis of consolidation

The consolidated financial statements include the Company and all its subsidiary undertakings. The financial statements of each undertaking in the Group are prepared to the balance sheet date. Intra-Group sales and profits are eliminated fully on consolidation.

Associate

The Group's share of profits less losses of the associate is included in the consolidated profit and loss account, and the Group's share of its net assets is included in the consolidated balance sheet. These amounts are taken from the latest financial statements of the undertaking concerned, which has the same accounting reference date as the Group. Since the accounting policies of the associate do not necessarily conform in all respects to those of the Group, adjustments are made on consolidation where the amounts involved are material to the Group.

Goodwill

Goodwill arising on acquisitions made since the introduction of Financial Reporting Standard 10 represents the excess of the fair value of the consideration given over the fair value of the assets and liabilities acquired and is amortised on a straight line basis over the period over which, in the opinion of the Directors, the value of the underlying business acquired is expected to exceed the value of the underlying assets. Prior to the introduction of the new accounting standard goodwill was written off immediately to reserves.

Tangible fixed assets

Tangible fixed assets are shown at cost, as adjusted for the revaluation of certain land and buildings.

Depreciation is calculated so as to write off the cost, or valuation, of tangible fixed assets, 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 and machinery	10-25 on cost
Motor vehicles	25 on reducing net book value
Fixtures and fittings	25-33 on cost

Freehold land is not depreciated.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. Provision is made where necessary for obsolete, slow moving and defective stocks.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. All foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Notes to the consolidated financial statements

for the year ended 31 December 1998

1 Principal accounting policies *(continued)*

Turnover
Turnover, which excludes value added tax, sales between Group companies and trade discounts, represents the invoiced value of goods and services supplied.

Investment income
Income from investments, other than from the associate, is included, together with the related tax credit, in the consolidated profit and loss account on an accruals basis.

Deferred taxation
Provision is made for deferred taxation, using the liability method, on material timing differences to the extent that it is probable that a liability or asset will crystallise.

Pension scheme arrangements
The Group operates a defined benefit pension scheme which is contracted out of the state scheme. The fund is valued every three years by a professionally qualified independent actuary, the rate of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rate. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the Group benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme.

2 Segmental analysis by class of business

The analysis by class of business of the Group's turnover and profit before taxation is set out below:

	1998 £'000	1997 £'000
Turnover		
Class of business		
Dining Out	18,459	18,835
Dining In	32,308	35,020
	50,767	53,855
Profit before taxation		
Class of business		
Dining Out	1,779	3,605
Dining In	(591)	2,115
Operating profit – continuing operations	1,188	5,720
Share of operating profit of associate	116	173
Profit on disposal of fixed assets	115	–
Income from fixed asset investment	6	24
Interest receivable	91	217
Interest payable and similar charges	(48)	(14)
Profit before taxation	1,468	6,120

The Directors consider that the disclosure of further information relating to the segmental analysis of the Group's net assets would be seriously prejudicial to the interests of the Group.

Notes to the consolidated financial statements

for the year ended 31 December 1998

3 Analysis by geographical area

The analysis by geographical area of the Group's turnover by destination is set out below:

	1998 £'000	1997 £'000
Geographical segment		
United Kingdom	**25,668**	27,817
Rest of Europe	**12,910**	14,893
North America	**8,419**	5,371
Australasia	**1,331**	2,321
Far East	**445**	1,151
Other	**1,994**	2,302
	50,767	53,855

All turnover, profit before taxation and net assets originate in the UK.

4 Operating profit – continuing operations

	1998 £'000	1997 £'000
Turnover	**50,767**	53,855
Changes in stocks of finished goods and work in progress	**558**	(367)
Raw materials	**(7,419)**	(7,666)
Staff costs (note 5)	**(23,136)**	(22,304)
Other external charges	**(16,614)**	(15,297)
Depreciation and other amounts written off tangible and intangible fixed assets	**(2,968)**	(2,501)
Operating profit – continuing operations	**1,188**	5,720

5 Employee information

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

	1998 Number	1997 Number
By activity		
Production	**1,419**	1,367
Sales and administration	**241**	249
	1,660	1,616

Employment costs – all employees including executive Directors:

	1998 £'000	1997 £'000
Staff costs (for the above persons)		
Wages and salaries	**20,852**	19,964
Social security costs	**1,607**	1,584
Other pension costs (see note 23)	**677**	756
	23,136	22,304

Notes to the consolidated financial statements

for the year ended 31 December 1998

6 Profit on disposal of fixed assets

	1998 £'000	1997 £'000
Profit on disposal of fixed assets	115	–

The profit on disposal represents net proceeds received of £115,000 on the disposal of land.

7 Income from fixed asset investment

	1998 £'000	1997 £'000
Income from fixed asset investment	6	24

Income from fixed asset investment represents dividends received from Shraff Tip Limited (see note 16).

8 Interest receivable

	1998 £'000	1997 £'000
Other interest receivable	91	217

9 Interest payable and similar charges

	1998 £'000	1997 £'000
On bank loans and overdrafts and other loans:		
Repayable within 5 years, not by instalments	31	12
Share of interest payable of associate	17	2
	48	14

10 Profit on ordinary activities before taxation

	1998 £'000	1997 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation charge for the year:		
Tangible owned fixed assets	2,952	2,499
Tangible fixed assets held under finance leases	2	2
Amortisation of goodwill	14	–
Auditors' remuneration (Company £1,500; 1997: £1,500)	50	50
(Profit)/loss on disposal of tangible fixed assets	(9)	21
Hire of plant and machinery – operating leases	2	2
Hire of other assets – operating leases	5	9

Remuneration of the Group's auditors for provision of non-audit services to the Group was £42,000 (1997: £42,000).

Notes to the consolidated financial statements

for the year ended 31 December 1998

11 Tax on profit on ordinary activities

	1998 £'000	1997 £'000
United Kingdom corporation tax at 30.25% (1997: 31.5%):		
Current	219	1,785
Deferred	253	–
(Over)/under provision in respect of prior years:		
Current	(13)	26
	459	1,811
Share of corporation tax of associate	9	49
	468	1,860

12 Dividends

	1998 £'000	1997 £'000
Ordinary		
Interim of 4.9p per 10p ordinary share paid (1997: 4.3p)	319	520
Proposed final of 0.0p per 10p ordinary share (1997: 9.4p)	–	1,000
	319	1,520

13 Earnings per ordinary share

The basic earnings per ordinary share is based on the profit on ordinary activities after taxation and on 10,645,258 (1997: 10,623,580) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The adjusted earnings per ordinary share is based on the profit on ordinary activities after taxation and adjusted to take into account income from fixed asset investment and profit on disposal of fixed assets.

	1998 Pence per share	1997 Pence per share
Basic earnings per share	9.4	40.1
Adjustments:		
Profit on disposal of fixed assets	(1.1)	–
Income from fixed asset investment	–	(0.2)
Adjusted earnings per share	8.3	39.9

Diluted basic earnings per ordinary share is based on the profit on ordinary activities after taxation and on 10,645,258 (1997: 10,797,352) ordinary shares, being the weighted average number of ordinary shares in issue during the year of 10,645,258 (1997: 10,623,580) increased by nil (1997: 173,772) 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.

Diluted adjusted earnings per ordinary share is based on the profit on ordinary activities after taxation and adjusted to take into account income from fixed asset investment and profit on disposal of fixed assets.

Notes to the consolidated financial statements

for the year ended 31 December 1998

13 Earnings per ordinary share *(continued)*

	1998 Pence per share	1997 Pence per share
Diluted basic earnings per share	9.4	39.4
Adjustments:		
Profit on disposal of fixed assets	(1.1)	–
Income from fixed asset investment	–	(0.2)
Diluted adjusted earnings per share	8.3	39.2

14 Intangible fixed assets

The Company has no intangible fixed assets. Details of these relating to the Group are as follows:

	£'000
Cost	
Additions	324
At 31 December 1998	**324**
Aggregate amortisation	
Charge for the year	14
At 31 December 1998	**14**
Net book value at 31 December 1998	**310**

The goodwill arising on the acquisition of Wren Giftware is being amortised on a straight line basis over 10 years. This period is the period over which the Directors estimate that the value of the underlying business acquired is expected to exceed the value of underlying assets.

Notes to the consolidated financial statements

for the year ended 31 December 1998

15 Tangible fixed assets

The Company has no tangible fixed assets. Details of those relating to the Group are as follows:

	Freehold land and buildings £'000	Plant and machinery £'000	Motor vehicles £'000	Fixtures and fittings £'000	Total £'000
Cost/valuation					
At 1 January 1998	10,987	20,098	955	3,069	35,109
Additions	967	2,926	231	219	4,343
Acquisitions	–	10	–	–	10
Transfer to current assets	–	(40)	–	–	(40)
Disposals	(21)	(70)	(217)	(59)	(367)
At 31 December 1998	**11,933**	**22,924**	**969**	**3,229**	**39,055**
Depreciation					
At 1 January 1998	593	10,941	469	1,996	13,999
Charge for the year	169	2,186	155	444	2,954
Disposals	–	(66)	(133)	(10)	(209)
At 31 December 1998	**762**	**13,061**	**491**	**2,430**	**16,744**
Net book value					
At 31 December 1998	**11,171**	**9,863**	**478**	**799**	**22,311**
At 31 December 1997	10,394	9,157	486	1,073	21,110

Freehold land and buildings are included at a valuation on an existing use basis as follows:

	£'000
Valuations in 1992	**6,395**

The historical cost and related depreciation of freehold land and buildings included at a valuation are set out below:

	Freehold land and buildings	
	1998	1997
	£'000	£'000
Historical cost	**8,898**	7,952
Depreciation based on cost	**(925)**	(795)
Historical cost net book value	**7,973**	7,157

The net book value of plant and machinery includes an amount of £5,000 (1997: £7,000) in respect of assets held under finance leases and hire purchase contracts. Depreciation charged on these assets during the year was £2,000 (1997: £2,000).

Notes to the consolidated financial statements

for the year ended 31 December 1998

16 Fixed asset investments

Group	Interest in associate £'000	Other investment £'000	Total £'000
Cost or valuation			
At 1 January 1998	738	4	742
Share of retained profit invested	90	–	90
At 31 December 1998	**828**	**4**	**832**

Interest in associate

This represents a holding of 34.4% of the issued £1 ordinary shares of Furlong Mills Limited, an unlisted Company registered in Great Britain, whose principal activity is that of a potters miller.

	1998 £'000	1997 £'000
Share of associate's net assets	**884**	794

During the year the Group purchased raw materials to a value of £3,281,000 (1997: £3,275,000) from Furlong Mills Limited.

Other investment	**1998 £'000**	1997 £'000
Shares in unlisted company at cost	**4**	4

Shares in unlisted company represents 32.2% (1997: 32.2%) of the issued ordinary share capital of Shraff Tip Limited, a Company registered in Great Britain. The Directors do not consider that the investment in Shraff Tip Limited should be accounted for as an associate as Churchill China plc is not in a position to exercise significant influence over Shraff Tip Limited, taking into account other large third party shareholdings.

Company	Interests in Group undertakings £'000	Other investments £'000	Total £'000
Cost or valuation			
At 1 January 1998	2,668	380	3,048
At 31 December 1998	**2,668**	**380**	**3,048**

Interests in Group undertakings

Shares in Group undertakings comprise the cost of investments in subsidiary undertakings, all of which are registered and operate in Great Britain.

Name of Company	*Description of shares held*	*Proportion of nominal value of issued shares held*	*Principal activity*
Churchill Tableware Limited	Ordinary	100%	Earthenware manufacturers
Churchill China (UK) Limited (formerly Churchill Hotelware Limited)	Ordinary	100%	Vitrified earthenware manufacturers
Churchill Ceramics (UK) Limited	Ordinary	100%	Provision of management and property services within the Group

Notes to the consolidated financial statements

for the year ended 31 December 1998

17 Stocks

The Company has no stocks. Details of stocks relating to the Group are as follows:

	1998 £'000	1997 £'000
Raw materials and consumables	**942**	705
Work in progress	**1,224**	1,034
Finished goods and goods for resale	**3,886**	3,252
	6,052	4,991

18 Debtors

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Amounts falling due after one year:				
Amounts owed by subsidiary undertakings	**–**	–	**13,679**	9,721
	–	–	**13,679**	9,721
Amounts falling due within one year:				
Trade debtors	**9,479**	10,144	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**193**	415
Other debtors	**172**	242	**–**	1
Prepayments and accrued income	**316**	720	**–**	–
	9,967	11,106	**193**	416
Total debtors	**9,967**	11,106	**13,872**	10,137

Other debtors includes assets held for resale of £20,000 (1997: £173,000)

19 Creditors: amounts falling due within one year

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Trade creditors	**4,559**	4,211	**–**	–
Corporation tax	**320**	2,270	**2**	–
Other creditors including:				
Taxation and social security	**780**	935	**–**	–
Obligations under finance leases	**–**	2	**–**	–
Other creditors	**1,878**	2,381	**–**	–
Dividends payable	**–**	1,000	**–**	1,000
Accruals and deferred income	**611**	891	**3**	55
Bank and other borrowings (see note 20)	**1,128**	48	**–**	–
	9,276	11,738	**5**	1,055

Notes to the consolidated financial statements

for the year ended 31 December 1998

20 Bank and other borrowings due within one year

The Company has no borrowings due within one year. Details of the Group's borrowings due within one year are as follows:

	1998 £'000	1997 £'000
Bank loans, overdrafts and other loans due within one year or on demand		
Bank loans and overdrafts	1,128	–
Other loans	–	48
	1,128	48

Bank loans and overdrafts, which are unsecured, bear interest linked to the base lending rate of Lloyds Bank plc.

Other loans in 1997 were secured by a fixed charge on certain of the freehold land and buildings, fixed plant and machinery and fixtures of the Group, and a floating charge on certain of the Group's other assets. The interest rate was a fixed rate of 11.5%.

21 Creditors: amounts falling due after more than one year

The Group has no creditors falling due after more than one year. Details of these relating to the Company are as follows:

	1998 £'000	1997 £'000
Amounts owed to subsidiary undertakings	–	500

22 Provisions for liabilities and charges

Deferred taxation

Deferred taxation has been provided to the extent that the Directors believe on the basis of reasonable assumptions and the intentions of management, it is probable that a liability or asset will crystallise. The amount provided is:

	1998 £'000	1997 £'000
Accelerated capital allowances	253	–
Short term timing differences	–	–
	253	–

The unprovided amounts for deferred taxation are as follows:

	1998 £'000	1997 £'000
Accelerated capital allowances	939	922
Short term timing differences	(83)	(282)
	856	640

Notes to the consolidated financial statements

for the year ended 31 December 1998

23 Pension and similar obligations

The Group operates a funded pension scheme, the Churchill Retirement Benefit Scheme, for Directors, staff and works operatives, providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Group. The total pension cost for the Group was £677,000 (1997: £756,000). The pension cost relating to the scheme is assessed in accordance with the advice of an independent qualified actuary using the projected units method. The latest actuarial valuations of the scheme was at 1 June 1996. The assumptions that have the most significant effect on the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 2% per annum higher than increases in earnings and 4.5% higher than increases in present and future pensions.

At the date of the latest actuarial valuation, the market value of the assets of the scheme was £8,342,000. The actuarial value of these assets was sufficient to cover 126% of the benefits which had accrued to members, after allowing for expected future increases in earnings. The contributions of the Company and employees are 6.7% and 5.2% respectively.

24 Called up share capital

	1998	1997
	£'000	£'000
Authorised		
14,300,000 ordinary shares of 10p each	**1,430**	1,430
Allotted, called up and fully paid		
10,649,876 ordinary shares of 10p each (1997: 10,635,593)	**1,065**	1,064

During the year 14,283 ordinary shares of 10p each were allotted called up and fully paid under the terms of the Executive share option scheme (see note 25).

25 Options in shares of Churchill China plc

The following options exercisable over ordinary shares were outstanding at 17 March 1999:

Number of shares	**Exercise price**	**Date from which exercisable**	**Expiry date**
The Executive share option scheme			
85,727	280p	October 1997	October 2004
10,000	505p	April 1999	April 2006
5,000	575p	October 1999	October 2006
The unapproved Executive share option scheme			
27,500	575p	October 1999	October 2006
30,000	342p	April 2001	April 2008
The Sharesave scheme			
68,910	285p	November 1999	May 2000
26,190	494p	May 2001	November 2001

Notes to the consolidated financial statements

for the year ended 31 December 1998

26 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Profit for the financial year	**1,000**	4,260
Ordinary dividends	**(319)**	(1,520)
New share capital issued	**40**	40
Net addition to shareholders' funds	**721**	2,780
Opening shareholders' funds	**29,232**	26,452
Closing shareholders' funds	**29,953**	29,232

27 Analysis of changes in financing during the year

	1998		1997	
	Share capital (including share premium) £'000	**Loans and finance lease obligations £'000**	Share capital (including share premium) £'000	Loans and finance lease obligations £'000
At 1 January	**2,985**	**50**	2,945	99
Cash outflow from financing	**–**	**(50)**	–	(49)
Shares issued net of expenses	**40**	**–**	40	–
At 31 December	**3,025**	**–**	2,985	50

28 Share premium account and reserves

	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000
Group				
At 1 January 1998	1,921	3,240	253	22,754
Premium on allotment during the year	39	–	–	–
Transfer from revaluation reserve to profit and loss account	–	(39)	–	39
Retained profit for the year	–	–	–	681
At 31 December 1998	**1,960**	**3,201**	**253**	**23,474**
Churchill China plc and subsidiaries	1,960	3,201	253	22,729
Associate	–	–	–	745
At 31 December 1998	**1,960**	**3,201**	**253**	**23,474**

Cumulative goodwill relating to acquisitions made prior to 1998 which has been eliminated against reserves amounts to £31,000.

	Share premium account £'000	Profit and loss account £'000
Company		
At 1 January 1998	1,921	11,328
Retained profit for the year	–	5,752
Premium on allotment	39	–
At 31 December 1998	**1,960**	**17,080**

Notes to the consolidated financial statements

for the year ended 31 December 1998

29 Acquisition

The Group completed the purchase of the business and certain assets of Wren Giftware on 3 August 1998 for a total consideration of £562,000. The adjustment required to the agreed value of the assets acquired in order to present the net assets of Wren Giftware acquired at fair value in accordance with Group accounting principles was £31,000. Details of these fair value adjustments and the resultant goodwill arising are set out below.

As the business acquired was immediately integrated into the Group's existing operations it has not been possible to separately identify sales, profit before interest and profit after interest. Similarly, cash flow information in respect of net operating cash flow, interest and taxation payments and utilisation of capital expenditure is not available.

	Book value £'000	Revaluation £'000	Other £'000	Provisional fair value £'000
Tangible assets	10	–	–	10
Stock	259	(4)	–	255
Creditors	–	–	(27)	(27)
	269	(4)	(27)	238
Goodwill				324
Net assets acquired				562
Consideration satisfied by				
Cash				544
Costs of acquisition				18
				562

The revaluation adjustment in relation to stock represents a further write down to net realisable value for certain slow moving products in line with the Group's policy on stock valuation.

A provisional adjustment has been made to creditors to reflect rebates payable to customers in respect of pre acquisition sales.

In addition to the above the Group entered into an agreement whereby the vendor manufactured certain products for a limited period of time whilst production facilities were prepared at the Group's site. Products to a value of £132,000 were purchased under this agreement.

Notes to the consolidated financial statements

for the year ended 31 December 1998

30 Financial commitments

Capital commitments

	Group		Company	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Capital expenditure				
Contracted but not provided for	**125**	855	**–**	–

Lease commitments

The Group has financial commitments in respect of non–cancellable operating leases of plant and machinery. The rentals payable under these leases in the next year are as follows:

	Group		Company	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Date of lease termination				
Within one year	**1**	2	**–**	–

31 Contingent liabilities

The Company has guaranteed bank and other borrowings of subsidiary undertakings amounting to £4,322,000 (1997: £439,000).

32 Profit and loss account

As permitted by Section 230 of the Companies Act 1985, the holding Company's profit and loss account has not been included in these financial statements. The profit for the year, after dividends received from subsidiary Companies, is made up as follows:

	1998	1997
	£'000	£'000
Holding Company's profit on ordinary activities for the financial year	**6,071**	1,611
Share of net profits retained by associate	**90**	122

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Five year financial record

	1994 £'000	1995 £'000	1996 £'000	1997 £'000	**1998 £'000**
Turnover	42,398	47,059	54,106	53,855	**50,767**
Operating profit before discretionary Directors' bonuses	3,809	4,543	5,699	5,720	**1,188**
Share of operating profit of associate	65	64	146	173	**116**
Interest receivable	65	299	223	217	**91**
Interest payable and similar charges	(44)	(27)	(23)	(14)	**(48)**
Profit on ordinary activities before discretionary Directors' bonuses, profit on disposal of fixed assets and income from fixed asset investment	3,895	4,879	6,045	6,096	**1,347**
Discretionary Directors' bonuses	(501)	–	–	–	–
Profit on disposal of fixed assets	–	182	84	–	**115**
Income from fixed asset investment	180	16	32	24	**6**
Profit before taxation	3,574	5,077	6,161	6,120	**1,468**
Taxation	(1,130)	(1,587)	(1,877)	(1,860)	**(468)**
Profit after taxation	2,444	3,490	4,284	4,260	**1,000**
Dividends	(233)	(1,195)	(1,381)	(1,520)	**(319)**
Retained profit	2,211	2,295	2,903	2,740	**681**
Net assets employed	21,252	23,547	26,452	29,232	**29,953**
Ratios					
Operating profit before discretionary Directors' bonuses	9.0%	9.7%	10.5%	10.6%	**2.3%**
Basic earnings per share (pence)	25.5	32.9	40.3	40.1	**9.4**
Adjusted earnings per share (pence)	27.1	31.0	39.4	39.9	**8.3**
Diluted basic earnings per share (pence)	25.5	32.6	39.7	39.4	**9.4**
Diluted adjusted earnings per share (pence)	27.1	30.7	38.8	39.2	**8.3**

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Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Churchill China plc will be held at Marlborough Pottery, High Street, Sandyford, Tunstall, Stoke-on-Trent on Wednesday 19 May 1999 at 9.30 a.m.

Ordinary Business

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

1. That the reports of the Directors and the Auditors and Financial Statements for the year ended 31 December 1998 be received, approved and adopted.
2. That, as recommended by the Directors, no final dividend on each Ordinary Share for the year ended 31 December 1998 be paid.
3. That P. D. Deighton be re-elected as Director.
4. That D. M. O'Connor be re-elected as Director.
5. That R. S. Kettel be re-elected as Director.
6. That E. S. Roper be re-elected as Director.
7. That D. J. S. Taylor be re-elected as Director.
8. That the Auditors, PricewaterhouseCoopers, be reappointed and that the Directors be authorised to fix their remuneration for the year ending 31 December 1999.

Special Business

AND to consider and, if thought fit, to pass the following resolutions to be proposed, in the case of resolution 9, as an ordinary resolution and, in the case of resolution 10, as a special resolution:

9. That the Directors of the Company be and they are hereby authorised pursuant to Section 80 of the Companies Act 1985 generally and unconditionally to exercise each and every power of the Company to allot relevant securities (as defined in that section) up to a maximum amount in nominal value of £365,012, such authority to expire on 18 May 2004 and the Company be and it is hereby allowed to make before the authority conferred by this resolution has expired one or more offers or agreement which would or might require relevant securities (as defined) to be allotted after this authority has expired and the Directors be and they are hereby permitted to allot relevant securities (as so defined) after the authority conferred by this resolution has expired in pursuance of each and every such offer or agreement made by the Company.
10. That the Directors of the Company be and they are hereby approved empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (as defined in Section 94(2) of the Act) pursuant to the authority granted by an ordinary resolution passed at the Annual General Meeting of the Company held on 19 May 1999 as if Section 89(1) of the Act did not apply to such allotment PROVIDED that this power shall be limited to:

    (a) the allotment of equity securities in connection with a rights issue in favour of the holders of ordinary shares where the equity securities respectively attributable to the interest of all the holders of ordinary shares are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject to such exclusions or arrangements as the Directors may deem necessary or desirable to deal with fractional entitlements otherwise arising or legal or practical problems under the laws of regulations of any regulatory authority in any territory; and

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Notice of Annual General Meeting

(b) the allotment of equity securities which are or are to be wholly paid up in cash (otherwise than as mentioned in sub-paragraph (a) of this resolution PROVIDED that the maximum nominal value of equity securities so allotted does not exceed in aggregate £53,249;

And shall expire on the date of the next Annual General Meeting of the Company (or if earlier on 18 August 2000).

PROVIDED that the Company may make an offer or agreement before the expiry of this power which would or might require equity securities to be allotted pursuant thereto after it has expired and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby has not expired.

By order of the Board

D J S Taylor

Company Secretary

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

Dated 23 April 1999

Explanatory Notes

1. A member entitled to vote at this Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A Proxy need not also be a member.
   A form of proxy for the use of member is enclosed and the attention of the members is drawn to the notes thereon. The appointment of a proxy will not preclude a member from attending at the Meeting and voting thereat in person.
2. There will be available at the Registered Office of the Company during business hours on any weekday (excluding Saturday and public holidays) from the date of this Notice until the conclusion of the Annual General Meeting and at Marlborough Pottery, High Street, Sandyford, Tunstall, Stoke-on-Trent from 9.15 a.m. until the conclusion of the Annual General Meeting, the register of Directors' interests and copies of all service contracts of the Directors of the Company having an unexpired term of at least 12 months.
3. Item 9 in the notice of Annual General Meeting is an ordinary resolution to authorise the Directors at any time prior to 19 May 2004 to allot relevant securities up to an aggregate nominal value of £365,012 (representing approximately 34% of the current issued share capital of the Company as the date of this notice). The Directors have no present intention to exercise this authority and are taking the same to preserve flexibility.
4. Item 10 in the notice of Annual General Meeting is a special resolution to empower the directors at any time prior to 18 August 2000 (or if earlier, the conclusion of the 2000 annual general meeting) to allot securities for cash without pre-emption up to an aggregate nominal value of £53,249 equivalent to 532,494 ordinary shares, (approximately 5 per cent of the present issued share capital). This resolution will also permit the directors (within the period mentioned above) to allot up to the entire unissued ordinary share capital of the Company (being 3,650,124 ordinary shares representing approximately 34 per cent of the present issued and reserved share capital) on a rights issue with such modifications as they may consider necessary or desirable to deal with fractions or legal or practical problems.
5. In accordance with Regulations 34(1) of the Uncertificated Securities Regulations 1995 the Company specifies that only those shareholders who are registered in the Company's register of members at 5pm on 17 May 1999 (or, in the case of adjournment, 48 hours before the time of the adjourned meeting) will be entitled to attend or vote at the meeting and that the number of votes which any such shareholder may cast, upon a poll, will be determined by reference to the number of shares registered in such shareholder's name at that time.

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Financial Calendar

Financial Year End	31 December
Preliminary Announcement	March
Annual Report	April
Annual General Meeting and Final Dividend	May
Interim Announcement	September
Interim Dividend	October