



Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2001.

Principal activities, operating and financial review

The consolidated profit and loss account for the year is set out on page 23.

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 have declared or paid and now recommend payment of the following dividends in respect of the year ended 31 December 2001:

	2001 £'000	2000 £'000
Ordinary dividend:		
Interim paid 3.0p (2000: 2.0p) per 10p ordinary share	319	213
Final proposed 6.0p (2000: 5.0p) per 10p ordinary share	639	533
	<u>958</u>	<u>746</u>

After the payment of the above dividends, the retained profit for the financial year of £1,499,000 (2000: £1,107,000) will be transferred to the Group's reserves.

Directors

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

- E S Roper
- A D Roper
- D J S Taylor
- R L Johnson * (resigned 29 March 2001)
- P D Deightor
- D M O'Connor
- R S Kettel *
- J N E Sparey *
- R N Grundy

* Non executive



The Directors retiring by rotation are R S Kettel, D M O'Connor and A D Roper who being eligible, offer themselves for re-election. The unexpired terms of the service contracts of D M O'Connor and A D Roper are twelve months. R S Kettel has a service contract which expires on 11 February 2003.

Directors *(continued)*

Biographical details in respect of non executive Directors and Directors offering themselves for re-election are as follows:

Rodney Kettel, non executive Director, aged 58, was formerly a partner in PricewaterhouseCoopers, Chartered Accountants, Birmingham, and has extensive experience in advising listed companies. He joined the Board in 1999.

Jonathan Sparey, non executive Director, aged 44, is a partner in L.E.K. Consulting, a leading international corporate strategy firm. He was previously a director of Samuel Montagu and Co. He joined the Board in 2000.

David O'Connor, Operations Director, aged 45, has worked for the Group for 11 years in a number of roles. His current responsibilities include control of the logistics functions of the Group and sourcing and marketing within the Group's Dining In division.

Andrew Roper, Group Managing Director, aged 53, has worked for the Group since 1973. He is currently Group Managing Director responsible for operational performance and development.

Political and charitable contributions

Contributions made by the Group during the year for political and charitable purposes were £Nil (2000: £Nil) and £1,000 (2000: £5,000) 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.

The Group continues to develop its personnel policies. 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. The Group is committed to the introduction of Total Quality Management systems and aims to improve the skill levels and flexibility within its workplace. Specific training initiatives covering the entire workforce have been implemented to support these aims.

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' Report

(continued)

Directors interests

The interests of the Directors and their immediate families and family trusts at 31 December 2001 in the 10p ordinary shares of the Company were as follows:

	2001	2000
E S Roper	1,268,295	1,268,295
A D Roper	2,802,430	2,677,430
D J S Taylor	8,000	7,500
R S Kettel	12,000	10,000
D M O'Connor	4,599	9,599
J N E Sparey	10,000	5,000
R N Grundy	2,000	2,000
	<u>4,107,324</u>	<u>3,979,824</u>

A D Roper's non-beneficial shareholdings included above at 31 December 2001 were 2,140,000 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 2001 and 18 March 2002.

Share options

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

	Date of grant	Number of options 31 December 2001	Number of options 31 December 2000	Exercise Price p	Date from which exercisable	Expiry date
D J S Taylor						
Unapproved Executive scheme	16.04.99	15,000	15,000	82.5	Apr 2002	Apr 2009
Unapproved Executive scheme	13.04.00	7,500	7,500	118.5	Apr 2003	Apr 2010
Executive scheme	05.12.00	19,500	19,500	151	Dec 2003	Dec 2010
Unapproved Executive scheme	05.12.00	20,500	20,500	151	Dec 2003	Dec 2010
		<u>62,500</u>	<u>62,500</u>			
P D Deighton						
Unapproved Executive scheme	16.04.99	15,000	15,000	82.5	Apr 2002	Apr 2009
Unapproved Executive scheme	13.04.00	7,500	7,500	118.5	Apr 2003	Apr 2010
Executive scheme	05.12.00	19,500	19,500	151	Dec 2003	Dec 2010
Unapproved Executive scheme	05.12.00	20,500	20,500	151	Dec 2003	Dec 2010
		<u>62,500</u>	<u>62,500</u>			

Share options *(continued)*

	Date of grant	Number of options 31 December 2001	Number of options 31 December 2000	Exercise Price p	Date from which exercisable	Expiry date
D M O'Connor						
Unapproved Executive scheme	16.04.99	15,000	15,000	82.5	Apr 2002	Apr 2009
Unapproved Executive scheme	13.04.00	7,500	7,500	118.5	Apr 2003	Apr 2010
Executive scheme	05.12.00	19,500	19,500	151	Dec 2003	Dec 2010
Unapproved Executive scheme	05.12.00	20,500	20,500	151	Dec 2003	Dec 2010
		62,500	62,500			
R N Grundy						
Unapproved Executive scheme	16.04.99	15,000	15,000	82.5	Apr 2002	Apr 2009
Unapproved Executive scheme	13.04.00	7,500	7,500	118.5	Apr 2003	Apr 2010
Executive scheme	05.12.00	19,500	19,500	151	Dec 2003	Dec 2010
Unapproved Executive scheme	05.12.00	20,500	20,500	151	Dec 2003	Dec 2010
		62,500	62,500			

No share options in the shares of the Company were granted, exercised or lapsed during the year.

Share options are granted to employees in accordance with the terms of reference of the Remuneration Committee (see page 19) to provide encouragement to enhance Group performance in the long term and having regard to each employees responsibilities, ability and contribution.

The market price of the Company's shares at the end of the financial year was 157p. The range of prices for the year to 31 December 2001 was 149.5p to 202.5p per ordinary share.

The above options are only exercisable subject to the satisfaction of performance criteria in relation to sustained improvement in the financial performance of the Group.

Phantom share scheme

Details of phantom shares granted under the Phantom share scheme are 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
P D Deighton	04.06.98	5,000	287.5p	500p	June 2001	June 2003
D M O'Connor	04.06.98	5,000	287.5p	500p	June 2001	June 2003

Directors' Report

(continued)

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 2002 exceeded 3% of the Company's issued share capital:

Shareholder	Number of ordinary shares	Percentage
Steelite International plc	1,826,784	17.2%
M J & G Roper	1,164,870	10.9%
Trustees of Miss S M R Roper	393,280	3.7%
Clydesdale Bank Nominees	322,727	3.0%

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 2001 was 48 days (2000: 50 days).

Financing

The Group currently uses short term variable rate financing arrangements to provide finance for working capital requirements. The Group also finances certain fixed assets using fixed rate finance leases (as set out at note 25).

Financial instruments

The Group uses 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 hedged using forward option contracts. This policy has been implemented during the year and reflects the change in currency exposure due to the increase in currency payments arising from the growth in the Group's sourcing operations. Net currency exposures are generally hedged between three and six months forward at any point in time. The Group does not trade in financial instruments.

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

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 2001 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 two non executive Directors and meets at least eleven times per year. E S Roper acts as 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, R S Kettel, has been formally appointed.

Since the resignation of R L Johnson on 29 March 2001, the Board has operated with two non executive Directors rather than the three recommended by the Combined Code. The Board has been aware of the non compliance but has borne in mind the move of E S Roper to a non executive role in April 2002. The Board does not believe that given the size of the Group and the nature of non executive Directors involvement in the business, that the period of non compliance has been of detriment to the Group.

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.

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 Remuneration Committee is wholly composed of non executive Directors 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 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 mis-statement or loss.

In line with the provisions of section D2.1 of the Combined Code (the Turnbull Report), the Board has reviewed and developed its existing risk assessment and management procedures to ensure compliance with the requirements of the Code. The principal risks to which the business is exposed have been formally documented and, the procedures necessary to fulfil the measures identified in the Code have been implemented. The Board has also established a system for ongoing review of risk assessment and management procedures to ensure that the controls on which it places reliance are operating satisfactorily and that new risks to which the business becomes exposed through its activities are recognised and appropriate controls implemented. These procedures have been in operation throughout the year and in the period to the date of this report.

Directors' Report

(continued)

Internal Control *(continued)*

The risks to which the Group is exposed are formally reviewed by the Board twice a year. More regular reviews of individual 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 principle operating subsidiary Churchill China (UK) Limited, under the supervision of the Board as a whole. Individual managers and employees are also aware, where appropriate, of their responsibilities in both identifying and controlling risk.

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

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

Internal Audit

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

Internal Financial Control

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

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.

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

Directors' emoluments

Emoluments excluding pension contributions of the Directors were as follows:

	Salary/ Fees £	Performance bonuses £	Benefits in kind £	2001 Total £	2000 Total £
E S Roper	117,500	4,800	16,830	139,130	137,775
A D Roper	116,250	4,800	11,890	132,940	129,237
D J S Taylor	93,250	3,800	10,262	107,312	106,041
P D Deighton	76,500	3,120	8,035	87,655	88,058
D M O'Connor	90,000	3,563	10,119	103,682	90,667
R N Grundy	72,750	3,000	10,765	86,515	55,865
R L Johnson	3,000	-	-	3,000	16,000
R S Kettel	18,246	-	-	18,246	16,000
J N E Sparey	19,000	-	-	19,000	16,000
	<u>606,496</u>	<u>23,083</u>	<u>67,901</u>	<u>697,480</u>	<u>655,643</u>

In addition to the above, R L Johnson had 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 period of the directorship was £Nil (2000: £31,502).

L.E.K. Consulting, a limited liability partnership in which J N E Sparey is a partner provided consultancy services to the Group during the year to a total value of £63,061 (2000: £Nil).

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.

Performance bonuses are earned on a basis combining increases in Group 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 benefits, fuel benefits and medical insurance.

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	2,893	35,235	79,192
A D Roper	2,167	21,275	59,330
D J S Taylor	2,152	9,850	14,531
P D Deighton	2,961	16,831	22,694
D M O'Connor	3,174	12,241	12,245
R N Grundy	1,194	2,018	2,885
	<u>14,541</u>	<u>97,450</u>	<u>190,877</u>

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

Directors' emoluments *(continued)*

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 2001.

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 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 and A D Roper do not contribute to the Scheme. The pension benefit of D J S Taylor, P D Deighton and D M O'Connor is funded to allow retirement between the ages of 60 and 65 with a pension based on accrued service. The pension benefit of R N Grundy is funded to allow retirement at 65 with a pension based on accrued service. D J S Taylor, P D Deighton, D M O'Connor and R N Grundy contribute 6% of pensionable earnings towards Scheme benefits. Only basic salary is pensionable.

E S 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, D M O'Connor and R N Grundy have service contracts that can be terminated with a notice period of twelve months from the Company or six months from the Director. Non executive Directors are appointed on fixed term contracts of two years duration.

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



18 March 2002

Churchill China plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom auditing standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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 1985. 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. The other information comprises only the Directors' report, the Chairman's Statement, the operating and financial review and the corporate governance statement.

We review whether the corporate governance statement on pages 16 to 19 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

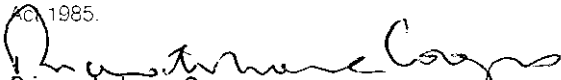
Basis of opinion

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 2001 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

Chartered Accountants and Registered Auditors
Birmingham

18 March 2002

	Notes	Total 2001 £'000	Total 2000 £'000
Turnover – continuing operations	2	51,985	49,913
Operating profit– continuing operations	3	2,813	2,395
Share of operating profit of associate		124	143
Profit on disposal of fixed assets	5	337	–
Income from fixed asset investment	6	–	48
Net interest receivable/(payable)	7	104	(97)
Profit on ordinary activities before taxation		3,378	2,489
Tax charge on profit on ordinary activities	9	(921)	(636)
Profit on ordinary activities after taxation		2,457	1,853
Dividends	10	(958)	(746)
Retained profit for the year		1,499	1,107
Earnings per ordinary share			
Basic	11	23.1p	17.4p
Adjusted	11	19.9p	16.9p
Diluted earnings per share			
Basic	11	22.9p	17.4p
Adjusted	11	19.7p	16.9p

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.



Notes to Historical Cost Profit and Loss Account

2001 and 2000 are in £'000

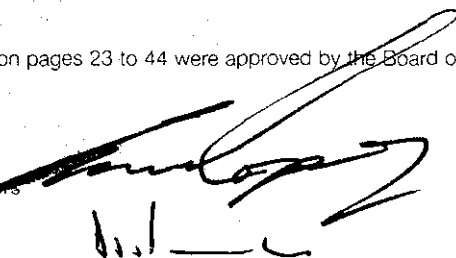
	2001 £'000	2000 £'000
Reported profit on ordinary activities before taxation	3,378	2,489
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	22	23
Realisation of property revaluation gains of previous years	21	67
Historical cost profit on ordinary activities before taxation	<u>3,421</u>	<u>2,579</u>
Historical cost profit for the year retained after taxation and dividends	<u>1,542</u>	<u>1,197</u>

	Notes	2001 £'000	2000 £'000
Fixed assets			
Intangible assets	12	222	268
Tangible assets	13	14,767	15,229
Investments	14	1,092	993
		<u>16,081</u>	<u>16,490</u>
Current assets			
Stocks	15	8,459	7,049
Debtors: amounts falling due within one year	16	10,060	11,049
Cash at bank and in hand		2,167	1,124
		<u>20,686</u>	<u>19,222</u>
Creditors: amounts falling due within one year	17	<u>(9,232)</u>	<u>(9,655)</u>
Net current assets		<u>11,454</u>	<u>9,567</u>
Total assets less current liabilities		<u>27,535</u>	<u>26,057</u>
Creditors: amounts falling due after more than one year	18	(19)	(32)
Provisions for liabilities and charges	19	-	(8)
Net assets		<u><u>27,516</u></u>	<u><u>26,017</u></u>
Capital and reserves			
Called up share capital	21	1,065	1,065
Share premium account	26	1,960	1,960
Revaluation reserve	26	2,122	2,165
Other reserves	26	253	253
Profit and loss account	26	22,116	20,574
Equity shareholders' funds	23	<u><u>27,516</u></u>	<u><u>26,017</u></u>

The financial statements on pages 23 to 44 were approved by the Board of Directors on 18 March 2002 and were signed on its behalf by:

E S Roper
D J S Taylor

} Directors



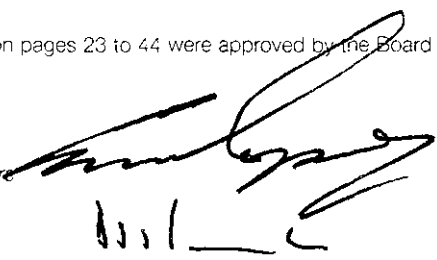
Churchill
 2001
 2000

	Notes	2001 £'000	2000 £'000
Fixed assets			
Investments	14	<u>3,018</u>	<u>3,048</u>
Current assets			
Debtors: amounts falling due after one year	16	<u>18,595</u>	15,973
Debtors: amounts falling due within one year	16	<u>127</u>	366
Investments	14	<u>62</u>	-
Cash at bank and in hand		<u>14</u>	629
		<u>18,798</u>	16,968
Creditors: amounts falling due within one year	17	<u>(1,109)</u>	(560)
Net current assets		<u>17,689</u>	16,408
Total assets less current liabilities		<u>20,707</u>	19,456
Net assets		<u>20,707</u>	19,456
Capital and reserves			
Called up share capital	21	<u>1,065</u>	1,065
Share premium account	26	<u>1,960</u>	1,960
Profit and loss account	26	<u>17,682</u>	16,431
Equity shareholders' funds		<u>20,707</u>	19,456

The financial statements on pages 23 to 44 were approved by the Board of Directors on 18 March 2002 and were signed on its behalf by:

E S Roper
 D J S Taylor

} Directors



	2001	2000
	£'000	£'000
Net cash inflow from continuing operating activities (see page 28)	<u>3,670</u>	<u>4,049</u>
Returns on investments and servicing of finance		
Interest received/(paid)	109	(85)
Dividends received from other investments	-	48
Net cash inflow/(outflow) from returns on investments and servicing of finance	<u>109</u>	<u>(37)</u>
Taxation		
United Kingdom corporation tax paid	(814)	(23)
Capital expenditure		
Purchase of tangible fixed assets	(2,011)	(949)
Sale of tangible fixed assets	972	82
Purchase of investments	(18)	-
Net cash outflow from capital expenditure	<u>(1,057)</u>	<u>(867)</u>
Acquisitions		
Purchase of business	-	(250)
Equity dividends paid	<u>(852)</u>	<u>(213)</u>
Financing		
Payment of principal under finance leases	(13)	(13)
Net cash outflow from financing	<u>(13)</u>	<u>(13)</u>
Increase in net cash	<u><u>1,043</u></u>	<u><u>2,646</u></u>

Electronics International plc Net Cash Inflow from Continuing Activities

For the year ended 31 December

	2001 £'000	2000 £'000
Continuing operating activities		
Operating profit	2,813	2,395
Depreciation on tangible fixed assets	2,053	2,356
Loss on disposal of tangible fixed assets	16	26
Goodwill amortisation	46	40
Increase in stocks	(1,410)	(763)
Decrease/(increase) in debtors	572	(1,080)
(Decrease)/increase in creditors	(412)	1,132
Decrease in provisions and liabilities	(8)	(57)
Net cash inflow from continuing operating activities	3,670	4,049

Reconciliation of Net Cash Flow to Movement in Net Cash/Debt

	2001 £'000	2000 £'000
Increase in net cash during the year	1,043	2,646
Cash outflow from decrease in debt and lease financing	13	13
Changes in net cash resulting from cash flows	1,056	2,659
Net cash/(debt) at the start of the year	1,079	(1,580)
Net cash at the end of the year	2,135	1,079

Analysis of Net Cash

	At 1 January 2001 £'000	Cash flow £'000	At 31 December 2001 £'000
Cash at bank and in hand	1,124	1,043	2,167
Finance leases	(45)	13	(32)
	1,079	1,056	2,135

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 is set out below.

Basis of accounting

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

Change in accounting policy

The Group is required to adopt FRS 17 'Retirement Benefits' and give the additional balance sheet disclosures required by that standard. The Group has adopted FRS 18 'Accounting Policies' in the financial statements.

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 would be made on consolidation where the amounts involved are material to the Group.

Goodwill

Goodwill arising on acquisitions made since the introduction of FRS 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. This period is not normally expected to exceed 20 years. 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 as incurred. 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.

Trading transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the transaction was entered into.

3 Operating profit

	Total 2001 £'000	Total 2000 £'000
Turnover	51,985	49,913
Changes in stocks of finished goods and work in progress	1,224	684
Raw materials	(6,025)	(6,120)
Staff costs (note 4)	(20,598)	(21,320)
Other external charges	(21,674)	(18,366)
Depreciation and other amounts written off tangible and intangible fixed assets	(2,099)	(2,396)
Operating profit	<u>2,813</u>	<u>2,395</u>

All of the above relate to continuing operations.

4 Employee information

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

	2001 Number	2000 Number
By activity		
Production	1,046	1,143
Sales and administration	222	214
	<u>1,268</u>	<u>1,357</u>

Employment costs – all employees including executive Directors:

	2001 £'000	2000 £'000
Staff costs (for the above persons)		
Wages and salaries	18,716	19,164
Social security costs	1,347	1,426
Other pension costs (see note 20)	535	730
	<u>20,598</u>	<u>21,320</u>

5 Profit on disposal of fixed assets

	2001 £'000	2000 £'000
Profit on disposal of fixed assets	<u>337</u>	<u>–</u>

The profit on disposal of fixed assets represents the net proceeds of the disposal of two plots of surplus land during the year. Gross proceeds of £945,000 were received against which costs of £499,000 for the construction of access roads and £109,000 in respect of the value of the land sold have been charged.



NOTES TO THE FINANCIAL STATEMENTS

2001 and 2000

6 Income from fixed asset investment

	2001 £'000	2000 £'000
Income from fixed asset investment	-	48
Income from fixed asset investment represented dividends received from Shraff Tip Limited (see note 14).		

7 Net interest receivable/(payable)

	2001 £'000	2000 £'000
Other interest receivable	85	29
Income from fixed asset investment	27	-
Interest payable on bank loans and overdrafts and other loans: Repayable within 5 years, not by instalments	-	(110)
Interest payable on finance leases	(3)	(3)
Share of interest payable of associate	(5)	(13)
	<u>104</u>	<u>(97)</u>

8 Profit on ordinary activities before taxation

	2001 £'000	2000 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation charge for the year:		
Tangible owned fixed assets	2,043	2,346
Tangible fixed assets held under finance leases	10	10
Amortisation of goodwill	46	40
Auditors' remuneration (Company £1,500; (2000: £1,500))	52	52
Loss on disposal of tangible fixed assets	16	26
Profit on disposal of tangible fixed assets – exceptional	(337)	-

Remuneration of the Group's auditors for provision of non-audit services to the Group was £5,500 (2000: £11,000).

9 Tax charge on profit on ordinary activities

	2001 £'000	2000 £'000
United Kingdom Corporation tax charge at 30% (2000: 30.25%):		
Current year	901	862
Overprovision in respect of prior years	(18)	-
Share of corporation tax of associate	38	27
Total current tax	921	889
Deferred tax		
Reversal of timing differences	-	(253)
Total deferred tax	-	(253)
Tax on profit on ordinary activities	921	636

10 Dividends

	2001 £'000	2000 £'000
Ordinary		
Interim of 3.0p per 10p ordinary share paid (2000: 2.0p)	319	213
Proposed final of 6.0p per 10p ordinary share (2000: 5.0p)	639	533
	958	746

11 Earnings per ordinary share

The basic earnings per ordinary share is based on the profit on ordinary activities after taxation and on 10,649,876 (2000: 10,649,876) 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 profit on disposal of fixed assets and income from fixed asset investment. The Directors believe that adjusted earnings per share more closely reflects the underlying performance of the Group.

	2001 Pence per share	2000 Pence per share
Basic earnings per share	23.1	17.4
Adjustments:		
Profit on disposal of fixed assets	(3.2)	-
Income from fixed asset investment	-	(0.5)
Adjusted earnings per share	19.9	16.9

Diluted basic earnings per ordinary share is based on the profit on ordinary activities after taxation and on 10,738,683 (2000: 10,681,074) ordinary shares, being the weighted average number of ordinary shares in issue during the year of 10,649,876 (2000: 10,649,876) increased by 88,807 (2000: 31,198) 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.

Churchill Building Services Limited Financial Statements

For the year ended 31 December 2001

11 Earnings per ordinary share *(continued)*

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 exceptional items.

	2001 Pence per share	2000 Pence per share
Diluted basic earnings per share	22.9	17.4
Adjustments:		
Profit on disposal of fixed assets	(3.2)	-
Income from fixed asset investment	-	(0.5)
Diluted adjusted earnings per share	<u>19.7</u>	<u>16.9</u>

12 Intangible fixed assets

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

	£'000
Cost	
At 1 January 2001 and 31 December 2001	<u>444</u>
Aggregate amortisation	
At 1 January 2001	176
Charge for the year	46
At 31 December 2001	<u>222</u>
Net book value at 31 December 2001	<u>222</u>
Net book value at 31 December 2000	<u>268</u>

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.

The goodwill arising on the acquisition of James Sadler is being amortised on a straight line basis over 5 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.

As required by FRS 10 following the completion of the first full years trading after purchase, the Directors have performed a review of the carrying value of goodwill purchased on the acquisition of James Sadler using a rate of 10% to discount cash flows arising from the business. There has been no impairment to the carrying value of the goodwill purchased as a result of this review.

13 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 2001	10,783	22,581	868	3,458	37,690
Additions	1,029	689	190	334	2,242
Disposals	(558)	-	(233)	(5)	(796)
At 31 December 2001	11,254	23,270	825	3,787	39,136
Depreciation					
At 1 January 2001	1,189	17,862	359	3,051	22,461
Charge for the year	157	1,564	138	194	2,053
Disposals	-	-	(143)	(2)	(145)
At 31 December 2001	1,346	19,426	354	3,243	24,369
Net book value					
At 31 December 2001	9,908	3,844	471	544	14,767
At 31 December 2000	9,594	4,719	509	407	15,229

The Group adopted FRS 15 'Tangible Fixed Assets' and has followed the transitional provisions to retain the book value of land and buildings, certain of which were revalued in 1992.

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

	£'000
Valuations in 1992	4,929

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

	Freehold land and buildings	
	2001 £'000	2000 £'000
Historical cost	8,878	8,893
Depreciation based on cost	(1,594)	(1,459)
Historical cost net book value	7,284	7,434

The net book value of plant and machinery includes an amount of £40,000 (2000: £50,000) in respect of assets held under finance leases and hire purchase contracts. Depreciation charged on these assets during the year was £10,000 (2000: £10,000).

Notes to the Consolidated Financial Statements

Financial year ended 31 December 2001

14 Investments

Group

Fixed asset investments

	Interest in associate £'000	Other investment £'000	Total £'000
Cost or valuation			
At 1 January 2001	989	4	993
Additions	-	18	18
Share of retained profit invested	81	-	81
At 31 December 2001	1,070	22	1,092

Interest in associate

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

	2001 £'000	2000 £'000
Share of associate's net assets	1,126	1,045

During the year the Group purchased raw materials to a value of £2,834,000 (2000: £2,839,000) from The Furlong Mills Company Limited. Amounts due to that company at 31 December 2001 were £225,000 (2000: £349,000).

Other investment

	2001 £'000	2000 £'000
Shares in unlisted company at cost	22	4

Shares in unlisted company represents 35.9% (2000: 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

Fixed asset investments

	Interests in Group undertakings £'000	Other Investments £'000	Total £'000
Cost or valuation			
At 1 January 2001	2,668	380	3,048
Additions	14	18	32
Transfer to current asset investments	(62)	-	(62)
At 31 December 2001	2,620	398	3,018

14 Investments *(continued)*

Current asset investments

	Interest in Group undertaking £'000
Cost or valuation	
At 1 January 2001	–
Transfer from fixed asset investments	62
At 31 December 2001	62

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. The principal operating subsidiaries of the Group are as follows:

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

Dormant companies within the Group are not included in the above analysis.

15 Stocks

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

	2001 £'000	2000 £'000
Raw materials and consumables	1,139	953
Work in progress	1,096	1,325
Finished goods and goods for resale	6,224	4,771
	8,459	7,049

The Directors do not consider there is a material difference between the carrying value and replacement cost of stocks.

Notes to the Consolidated Financial Statements

31 December 2001 and 2000

16 Debtors

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Amounts falling due after one year:				
Amounts owed by subsidiary undertakings	-	-	18,595	15,973
	-	-	18,595	15,973
Amounts falling due within one year:				
Trade debtors	9,641	10,169	-	-
Amounts owed by subsidiary undertakings	-	-	127	366
Corporation tax	-	417	-	-
Other debtors	27	105	-	-
Prepayments and accrued income	392	358	-	-
	10,060	11,049	127	366
Total debtors	10,060	11,049	18,722	16,339

Other debtors includes assets held for resale of £nil (2000: £75,000).

Debtors include the following amounts receivable in currencies other than sterling:

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
US dollars	609	1,202	-	-
European currencies	1,284	1,046	-	-
Others	29	165	-	-
	1,922	2,413	-	-

17 Creditors: amounts falling due within one year

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Trade creditors	4,613	4,178	-	-
Corporation tax	616	964	1	15
Other creditors including:				
Taxation and social security	753	1,093	10	10
Obligations under finance leases	13	13	-	-
Other creditors	2,029	2,212	-	-
Dividends payable	639	533	639	533
Accruals and deferred income	569	662	3	2
Amounts due to subsidiary company	-	-	456	-
	9,232	9,655	1,109	560

Trade creditors include an amount of £192,000 (2000: £139,000) due in US dollars, and amounts of £nil (2000: £31,000) due in European currencies.

18 Creditors: amounts falling due after more than one year

	2001 £'000	2000 £'000
Obligations under finance leases	<u>19</u>	<u>32</u>
Finance leases:		
Repayable in one year or less	13	13
Repayable between one and two years	13	13
Repayable between two and five years	<u>6</u>	<u>19</u>
	<u>32</u>	<u>45</u>

The Company has no creditors falling due after more than one year.

19 Provisions for liabilities and charges

	Restructuring £'000
At 1 January 2001	8
Utilised	<u>(8)</u>
At 31 December 2001	<u>-</u>

There were no provisions for liabilities and charges in the Company.

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:

	2001 £'000	2000 £'000
Accelerated capital allowances	<u>-</u>	<u>-</u>

The unprovided amounts for deferred taxation assets are as follows:

	2001 £'000	2000 £'000
Accelerated capital allowances	(236)	(224)
Short term timing differences	<u>-</u>	<u>(9)</u>
	<u>(236)</u>	<u>(233)</u>

Notes to the Consolidated Financial Statements

for the year ended 31 December 2001

20 Pension and similar obligations

The Group operates two principal pension schemes; a funded pension scheme, the Churchill Retirement Benefit Scheme, providing benefits based on final pensionable salary which is closed to new entrants and the Churchill China 1999 Pension Scheme, a defined contribution scheme 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 £535,000 (2000: £730,000).

The pension cost relating to the Churchill Retirement Benefit Scheme is assessed in accordance with the advice of an independent qualified actuary using the projected units method. The latest actuarial valuation of the scheme was at 1 June 1999. 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% higher than increases in present and future pensions.

At the date of the latest actuarial valuation, the market value of the assets of the Churchill Retirement Benefit Scheme were £14,168,000 (2000: £14,168,000). The actuarial value of these assets was sufficient to cover 122% of the benefits which had accrued to members, after allowing for expected future increases in earnings. The contributions of the Company and employees are 5.5% and 5.2% respectively.

FRS 17

The most recent valuation of the Group's defined benefit pension scheme, the Churchill Group Retirement Benefit Scheme has been updated to 31 December 2001 to take account of the requirements of FRS 17. The major assumptions used to calculate the present value of scheme liabilities were as follows:

	% per annum
Discount rate	6.0
Inflation rate	2.7
Rate of increase in salaries	3.7
Rate of increase of pensions in payment	2.7

The assets of the scheme and the expected rate of return and liabilities of the scheme at 31 December were:

	Long term rate of return expected at 31 December %	Value £'000
Equities	8.2	12,935
Bonds	5.1	2,084
Other	5.1	742
Market value of scheme		15,761
Present value of scheme liabilities		(15,219)
Surplus in the scheme at 31 December 2001		542
Related deferred tax liability		(163)
Net asset		379

The above net asset represents 2% of the current market value of scheme assets.

20 Pension and similar obligations *(continued)*

if the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss account at 31 December 2001 would be as follows:

	£'000
Net assets	
Net assets excluding pension asset	27,516
Pension asset	379
	<hr/>
Net assets including pension asset	27,895
	<hr/>
	£'000
Profit and loss account	
Profit and loss account excluding pension asset	22,116
Pension asset	379
	<hr/>
Profit and loss account including pension asset	22,495
	<hr/>

21 Called up share capital

	2001 £'000	2000 £'000
Authorised		
14,300,000 ordinary shares of 10p each	1,430	1,430
	<hr/>	<hr/>
Allotted, called up and fully paid		
10,649,876 ordinary shares of 10p each (2000: 10,649,876)	1,065	1,065
	<hr/>	<hr/>

22 Options in shares of Churchill China plc

The following options exercisable over ordinary shares were outstanding at 18 March 2002:

Number of shares	Exercise price	Date from which exercisable	Expiry Date
The Executive share option scheme			
161,000	151p	December 2003	December 2010
The unapproved Executive share option scheme			
80,000	82.5p	April 2002	April 2009
45,000	118.5p	April 2003	April 2010
84,000	151p	December 2003	December 2010

23 Reconciliation of movements in shareholders' funds

	2001 £'000	2000 £'000
Profit for the financial year	2,457	1,853
Ordinary dividends	(958)	(746)
Net addition to shareholders' funds	<u>1,499</u>	<u>1,107</u>
Opening shareholders' funds	26,017	24,910
Closing shareholders' funds	<u><u>27,516</u></u>	<u><u>26,017</u></u>

24 Analysis of changes in financing during the year

	2001		2000	
	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	3,025	45	3,025	58
Cash outflow from financing	-	(13)	-	(13)
At 31 December	<u><u>3,025</u></u>	<u><u>32</u></u>	<u><u>3,025</u></u>	<u><u>45</u></u>

25 Financial instruments

Interest rate risk of financial assets and liabilities

	2001 £'000	2000 £'000
Variable rate assets:		
Sterling	1,399	626
US Dollar	441	316
European currencies	327	209
Variable rate liabilities:		
European currencies	-	(27)
Net variable rate assets	<u>2,167</u>	<u>1,124</u>
Fixed rate liabilities	<u>(32)</u>	<u>(45)</u>
	<u><u>2,135</u></u>	<u><u>1,079</u></u>

A right of set off exists between variable rate assets and liabilities.

25 Financial instruments *(continued)*

The Group's variable rate financial instruments attract interest charges based on the Lloyds TSB plc base lending rate. Fixed interest liabilities relate wholly to finance leases. The weighted average interest rate for these contracts is 8.3% (2000: 8.3%) and the weighted average period for which interest rates are fixed is 2 years.

The Group's variable rate sterling and foreign currency assets are comprised entirely of cash and bank deposits. Interest rates on bank deposits are based on the appropriate Lloyds TSB plc base rate. During the year, short term deposits were made for periods between 1 and 13 days and earned interest at rates between 2.8% and 6.4%.

The numerical disclosures above do not include details regarding short-term debtors and creditors as permitted by Financial Reporting Standard 13 "Derivatives and other financial instruments".

Fixed rate liabilities mature over the period shown in note 18.

Borrowing facilities

The Group has undrawn committed borrowing facilities of £5,000,000 expiring within one year. These facilities are subject to an annual review.

Fair value of financial assets and liabilities

There is no difference between the fair value of financial assets and liabilities and their book value.

Currency exposures

The table below shows the extent to which the Group has monetary assets and liabilities other than sterling. Foreign exchange differences on retranslation of these net assets and liabilities are taken to the Group's profit and loss account.

	2001 £'000	2000 £'000
Currency: US Dollar	858	1,379
European currencies	1,611	1,197
Other currencies	29	165
	<u>2,498</u>	<u>2,741</u>
These monetary assets and liabilities may be analysed as follows:		
Debtors (note 16)	1,922	2,413
Financial assets and liabilities (above)	768	498
Creditors due within one year (note 17)	(192)	(170)
	<u>2,498</u>	<u>2,741</u>

Hedges

As explained in the Directors' Report on page 16, the Group's policy is to hedge the currency risks to which it is exposed using forward option contracts.

At 31 December 2001, the Group had gains of £30,000 (2000: £39,000 loss) on forward option contracts which had been recognised in the profit and loss account and gains of £1,000 (2000: £27,000 gain) on forward option contracts which had not been recognised in the profit and loss account as they relate to transactions which will be completed in future years. These unrecognised gains are expected to be included in next years or later profit and loss accounts. All the gains and losses on hedging instruments are expected to be matched by gains and losses on the hedged transactions.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2001

26 Share premium account and reserves

	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000
Group				
At 1 January 2001	1,960	2,165	253	20,574
Transfer from revaluation reserve to profit and loss account	-	(43)	-	43
Retained profit for the year	-	-	-	1,499
At 31 December 2001	1,960	2,122	253	22,116
Churchill China plc and subsidiaries	1,960	2,122	253	21,129
Associate	-	-	-	987
At 31 December 2001	1,960	2,122	253	22,116

Cumulative goodwill relating to acquisitions made prior to 2001 which has been eliminated against reserves amounts to £31,000 (2000: £31,000).

	Share premium account £'000	Profit and loss account £'000
Company		
At 1 January 2001	1,960	16,431
Retained profit for the year	-	1,251
At 31 December 2001	1,960	17,682

27 Financial commitments

Capital commitments

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Capital expenditure				
Contracted but not provided for	93	47	-	-

28 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 and other distributions received from subsidiary Companies, is made up as follows:

	2001 £'000	2000 £'000
Holding Company's profit on ordinary activities for the financial year	2,209	36
Share of net profits retained by associate	81	103

	1997	1998	1999	2000	2001
	£'000	£'000	£'000	£'000	£'000
Turnover	53,855	50,767	45,577	49,913	51,985
Operating profit/(loss)	5,720	1,188	(433)	2,395	2,813
Share of operating profit of associate	173	116	76	143	124
Net interest receivable/(payable)	203	43	(154)	(97)	104
Profit/(loss) on ordinary activities before profit on disposal of fixed assets, income from fixed asset investment and exceptional items	6,096	1,347	(511)	2,441	3,041
Exceptional items	-	-	(4,085)	-	-
Profit on disposal of fixed assets	-	115	-	-	337
Income from fixed asset investment	24	6	65	48	-
Profit/(loss) before taxation	6,120	1,468	(4,531)	2,489	3,378
Taxation	(1,860)	(468)	405	(636)	(921)
Profit/(loss) after taxation	4,260	1,000	(4,126)	1,853	2,457
Dividends	(1,520)	(319)	-	(746)	(958)
Retained profit/(loss)	2,740	681	(4,126)	1,107	1,499
Net assets employed	29,232	29,953	24,910	26,017	27,516
Ratios					
Operating profit/(loss)	10.6%	2.3%	(1.0)%	4.8%	5.4%
Basic earnings/(loss) per share (pence)	40.1	9.4	(38.7)	17.4	23.1p
Adjusted earnings/(loss) per share (pence)	39.9	8.3	(3.7)	16.9	19.9p

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

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 15 May 2002 at 9.30am.

Ordinary Business

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

1. That the reports of the Directors and the Auditors and the Financial Statements for the year ended 31 December 2001 be received.
2. That, as recommended by the Directors, a final dividend of 6.0p on each ordinary share for the year ended 31 December 2001 be paid.
3. That A D Roper 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 the Auditors, PricewaterhouseCoopers, be re-appointed and that the Directors be authorised to fix their remuneration for the year ending 31 December 2002.

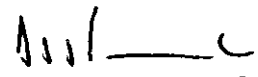
Special Business

AND to consider and, if thought fit, to pass the following resolution which will be proposed as a special resolution:

7. That the Directors of the Company be and they are hereby empowered pursuant to Section 95(1) of the Companies Act 1985 ("the Act") to allot equity securities (as defined in Section 94(2) of the Act) pursuant to the authority under Section 80 of the Act 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 (which for this purpose shall mean an offer of equity securities open for acceptance for a period fixed by the Directors in favour of the holders of ordinary shares on the register on a fixed record date where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, but 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, or the regulations or requirements of any regulatory body or authority or stock exchange in, any territory); and
 - (b) the allotment of equity securities (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 14 August 2003) and 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 had 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

Registered Number
2709505

Dated 17 April 2002

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 members 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 9.15am 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 7 in the notice of Annual General Meeting is a special resolution to empower the directors at any time prior to 14 August 2003 (or if earlier, the conclusion of the next annual general meeting) to allot securities for cash without pre-emption up to an aggregate nominal value of £53,249 equivalent to 532,490 ordinary shares, (approximately 5 per cent of the present issued share capital). This resolution will also empower the Directors (within the period mentioned above) to allot pursuant to the authority under section 80 of the Companies Act 1985 granted on 19 May 1999 up to 3,650,120 ordinary shares (approximately 34.27 per cent of the present issued share capital) in connection with a rights or similar issue with such modifications as they may consider necessary or desirable to deal with fractions or legal or practical problems.
4. In accordance with Regulation 41(1) of the Uncertificated Securities Regulations 2001 the Company specifies that only those shareholders who are registered in the Company's register of members at 5pm on 13 May 2002 (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.



CHURCHILL

Shareholders Notes

Financial Calendar

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



CHURCHILL
China plc

Churchill China plc
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