portmeirion group plc

report & accounts 2002

botanic
garden

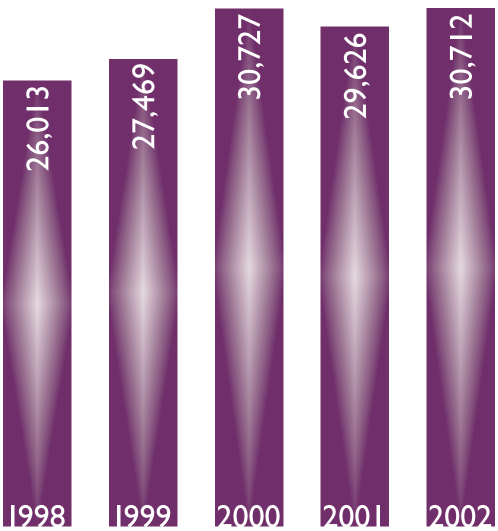
CONTENTS

Registered Number 124842

FINANCIAL HIGHLIGHTS

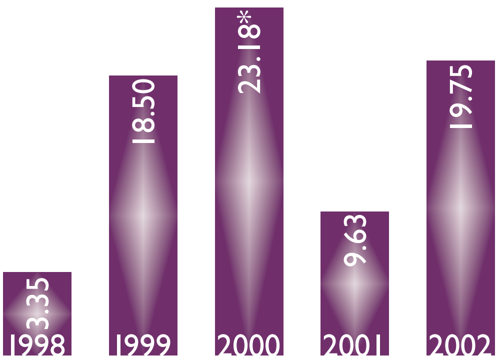
	2002 £000's	2001 £000's	Increase
Turnover	**30,712**	29,626	3.7%
Pre-tax profit	**2,923**	1,623	80.1%
Earnings per share – Basic	**19.75p**	9.63p	105.1%
Dividends per share	**13.25p**	13.25p	–

TURNOVER (£'000)

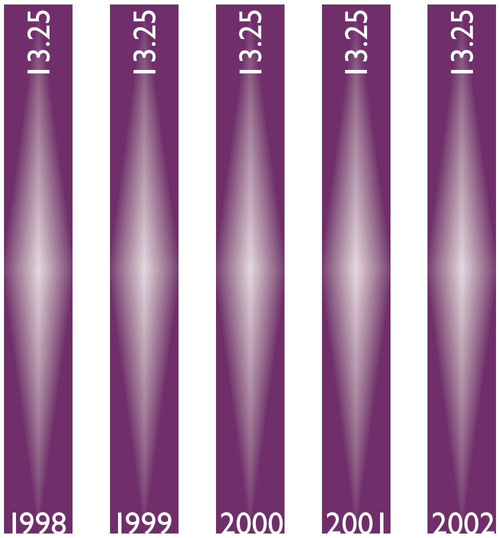


PRE-TAX PROFIT (£'000)

EARNINGS PER SHARE (p)



DIVIDENDS PER SHARE (p)



*Restated

DIRECTORS AND ADVISERS

Board of Directors

Arthur W. Ralley	*Chairman*
Lawrence F. Bryan BA	*Chief Executive*
Euan S. Cooper-Willis MA	*Non-executive Director*
Janis Kong OBE	*Non-executive Director*
Alan M. Miles	*Sales and Marketing Director*
Brett W. J. Phillips BSc ACA	*Finance Director*
Richard J. Steele BCOM FCA ATII	*Senior Non-executive Director*
Barbara S. Thomas BA JD	*Non-executive Director*

Secretary and Registered Office

Brett W. J. Phillips BSc ACA
London Road
Stoke-on-Trent
Staffordshire
ST4 7QQ
Tel: (01782) 744721
Fax: (01782) 744061

Auditors

Deloitte & Touche
Birmingham

Bankers

HSBC Bank plc
Crown Bank
Hanley
Stoke-on-Trent
Staffordshire
ST1 1DA

Stockbrokers

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111 Old Broad Street
London
EC2N 1PH

Registrars

Northern Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA
(01484) 600900

Solicitors

Pinsent Curtis Biddle
3 Colmore Circus
Birmingham
B4 6BH

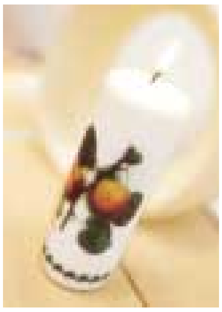
Kent Jones and Done
Churchill House
Regent Road
Stoke-on-Trent
Staffordshire
ST1 3RQ

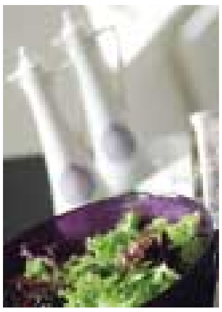
CHAIRMAN'S STATEMENT












Sales for the year were £30.712m., 4% above the previous year.

The profit before tax of £2.923m., compares with £1.623m. for the previous year, an increase of 80%.

Basic earnings per share were 19.75p which compares with 9.63p in the previous year.

The Board is recommending a final dividend of 9.95p bringing the total to 13.25p for the year. This is unchanged from 2001.

The year has seen a commendable recovery in both sales and profitability, at a time when the economic climate has been difficult, particularly in one of our major markets, North America. Our strategy concerning new product ranges, and new areas of distribution, has protected the Group from the negative impact of reduced consumer spending in both the USA and Europe.

Sales in the UK increased by 2% compared with the previous year, supported by an annual increase of 15% in our own retail sales. This is a creditable performance considering the worsening economic outlook in the second half of the year. The Group expects to continue to expand the number of our own retail outlets during this year.

In the USA sales declined by 4% compared with the previous year. The negative forces affecting this market have been well documented, and they have lead to a significant reduction in consumer spending, particularly in our middle to upper end target market. I therefore believe that limiting the sales decline to only 4% is a creditable achievement, and is far better than the industry average. The USA accounts for 37% of total Group sales, and with no improvement in trading conditions in sight, the challenge is enormous. The introduction of new ceramic and glassware ranges has ensured that Portmeirion has out-performed many of its competitors, and this, together with a drive into new channels of distribution, is the strategy for the current year.

The Far East proved to be the biggest growth market. Sales to South Korea increased by 120%, to almost £3m. and together with Japan now accounts for 11% of total sales. We have first class local management in these markets and with their guidance we are developing additional products exclusively for them. I believe there is the opportunity for further growth in the Far East, and we will continue to invest in our efforts to increase market share in both Japan and Korea.

The improvement in manufacturing efficiency and productivity has continued during the year, resulting in a significant improvement in manufacturing gross profit margin. A reduction in stock levels was managed very efficiently, the Group total reducing by £1.4 million. This contributed to the Group's total cash balance, which improved by £2.4 million.

The Board has, therefore, decided that the dividend will be maintained.

The Group has recently launched several new product ranges designed in conjunction with the homeware designer, Ella Doran, featuring ceramics, placemats and coasters, and glassware, and their success has lead us to develop further ranges for Spring 2003. A new range of bone china mugs has been designed in conjunction with Rob Scotton, a well known graphics designer, launched in the autumn of 2002 with great success, and the range will be expanded in 2003.

These initiatives illustrate the commitment within the Group to constant innovation and excellence of design, not only in ceramics, but also in our well-established glassware and gift ranges.

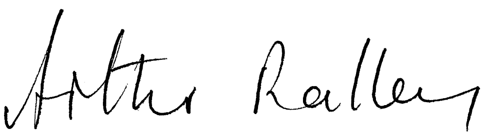
We need to offer our retail customers high quality products and excellent service, particularly ever-decreasing lead-times. Portmeirion will, therefore, continue to invest in the ceramic manufacturing facility in Stoke-on-Trent. I believe that, as a result, still further improvements can be achieved in productivity and service levels.

I would like to congratulate and thank the management team and workforce for their achievements. They have enhanced the Group's reputation in 2002.

New proposals on the role and effectiveness of non-executive directors have been put forward in the Higgs Report. I can report that Portmeirion already conforms with the majority of the recommendations.

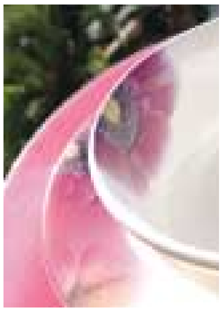
I am delighted to report that our founder, Susan Williams-Ellis, has been awarded an honorary Masters degree by Keele University for "an outstanding contribution to the ceramic industry". Many congratulations. Susan's belief that good design is good business has served the Group well.

We are now faced with a very challenging set of circumstances. The uncertain political situation, together with declining economic prospects in our major markets, are threatening to depress consumer spending. Inevitably, therefore, we have to be cautious about the prospects for 2003. However, we have a strong management team and a well proven strategy. I believe that we are well placed to take advantage of any improvement in market conditions as the year unfolds.



Arthur Ralley
Chairman
11th March 2003







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CHIEF EXECUTIVE'S REVIEW

2002 has ended with the Portmeirion Group showing more of the resilience and progress it demonstrated in 2001. The second half of the year saw particularly tough trading in the USA but sales in that market were down only 4% over 2001. Prospects for a recovery of significant proportions in 2003 are slim but we are confident that our continued programme of product diversification will allow us to trade successfully. As in 2002, improved logistical efficiency and customer service will continue to be key factors in our success in the USA.

The Home Market performed admirably by returning a 2% sales increase over 2001. The success of the licensed Ella Doran range played no small part in tipping the scales to the positive side.

The Far East continues to grow exponentially and will account for more than 12% of Group sales in 2003. South Korea has been a model of success and our team responsible for it deserves hearty congratulations.

Operations

2002 saw continued improvements in our operating margins and reductions in logistics expenditures. The capital investment for the year was in excess of £600,000 and will be expanded in 2003 with plans to invest in the Stoke-on-Trent area to fill our growing needs.

All of these factors contributed to a major improvement in profitability for the Group with the year-end results of £2.923 million compared with £1.623 million in 2001, an 80% increase. Considering this was achieved on a modest sales increase of 4%, £30.712 million vs. £ 29.626 million, I believe this is a very creditable performance.

2003 does not appear to offer an easy time for our industry or world trade in general. However, we have invested considerable efforts and thoughts about how best to approach our customers and continue the success of the past year. We are confident that, if the economic impediments of our current worldwide trading conditions fade by even a small amount, we can deliver another creditable year.

Lawrence Bryan
Chief Executive
11th March 2003

botanic garden

The Directors have pleasure in presenting their report together with the audited financial statements of the Company and its subsidiary undertakings for the year ended 31st December 2002.

Principal activity
The Group markets ceramic, glass and metal tableware, cookware and giftware, candles and other associated products, and manufactures ceramics.

Business review
A full explanation of the Group's activities during the year and its planned future developments is given in the Chairman's Statement and Chief Executive's Review on pages 4 and 8.

Results
The results for the year are set out on page 23. The profit for the year added to reserves amounted to £675,000 (2001 - loss of £377,000).

Research and development
The Group continues to research into methods of tackling the environmental issues facing it as a ceramics manufacturer while improving manufacturing efficiency. The development of innovative new products and designs is a key part of the Group's strategy.

Dividend
On 1st October 2002 an interim dividend of 3.3p (2001 - 3.3p) per share was paid on the Ordinary share capital. The Directors recommend that a final dividend of 9.95p per share be paid (2001 - 9.95p), making a total for the year of 13.25p (2001 - 13.25p) per share. The final dividend will be paid, subject to shareholders' approval, on 30th May 2003, to shareholders on the register at the close of business on 2nd May 2003.

Directors and their interests
The Directors who held office during the year are named below. The beneficial interests of the Directors and their families, registered by each Director, in the share capital of the Company, together with their interests as trustees and options to subscribe for shares, are also shown.

	As at 31st December 2002 5p Ordinary shares			As at 31st December 2001 5p Ordinary shares		
	Beneficial	**Non-beneficial**	**Options**	Beneficial	Non-beneficial	Options
L. F. Bryan	**186,000**	–	**210,000**	168,000	–	8,000
E. S. Cooper-Willis	**1,717,150**	**378,000**	–	1,746,200	378,000	–
J. Kong	**3,000**	–	–	3,000	–	–
A. M. Miles	–	–	**138,000**	–	–	19,000
B. W. J. Phillips	**2,455**	–	**138,000**	2,455	–	20,000
A. W. Ralley	**20,000**	–	**210,000**	20,000	–	–
R. J. Steele	**18,000**	–	–	10,000	–	–
B. S. Thomas	**5,000**	–	–	–	–	–

On 17th January 2002, E. S. Cooper-Willis sold 11,050 Ordinary shares in the Company at a price of 175p per share. R. J. Steele and B. S. Thomas each acquired 5,000 of these shares.

On 27th March 2002, L. F. Bryan purchased 10,000 Ordinary shares in the Company at a price of 165p per share. On 25th April 2002 he exercised an option to acquire 8,000 Ordinary shares at an exercise price of 142.5p per share.

On 23rd August 2002, E. S. Cooper-Willis sold 18,000 Ordinary shares in the Company at a price of 190p per share. R. J. Steele acquired 3,000 of these shares.

Details of changes in share options can be found in the Directors' Remuneration Report on page 18.

Details of transactions with Directors and other related parties are to be found in Note 23 on page 38.

Directors proposed for re-election

The following Directors retire by rotation and, being eligible, offer themselves for re-election:

L. F. Bryan

Lawrence Bryan, aged 43, is the Group's Chief Executive and President of Portmeirion USA. He first joined the Group in 1991 as Vice President, Sales of Portmeirion USA leaving in 1994. He re-joined the Group in 1998 as President of Portmeirion USA, became a Director on 1st January 2000 and was promoted to Chief Executive on 15th August 2001. His career in the glass, ceramics and gift industry is extensive. He has previously held the positions of Vice President, Sales, Waterford Wedgwood USA and President of International China Company. His contract expires on completion of one year's notice.

E.S. Cooper-Willis

Euan Cooper-Willis, aged 82, a Non-Executive Director and former Chairman of the Group. He founded the Portmeirion pottery business with his wife, Susan Williams-Ellis, in 1960. He worked for 18 years as an economist and investment adviser with stockbrokers Grieveson, Grant and Co. In 1973 he left to concentrate on the Group's business and the management of the Portmeirion resort created by Sir Clough Williams-Ellis, Susan's father. Since then he has been actively involved in the development and management of the Group. His contract expires on completion of one year's notice.

B.S. Thomas

Barbara Thomas, aged 56, is a lawyer, international banker and entrepreneur.
She is Executive Chairman of Private Equity Investor plc, Deputy Chairman of Friends' Provident plc as well as a director of Capital Radio. Formerly she was a Commissioner of the United States Securities and Exchange Commission and an executive director of News International and Samuel Montagu plc. Her contract expires on completion of one year's notice.

Non-executive Directors

R.J. Steele - Senior Non-executive Director

Dick Steele is the Senior Non-executive Director. He is a Chartered Accountant and a Member of the Institute of Taxation. He has spent ten years as Group Finance Director of listed companies, latterly with Storehouse and before that Lloyds Chemists. He is Non-executive Chairman of HobbyCraft, Colab, Buckley Jewellery, Snap Digital Imaging, and De Bradelei.

E.S. Cooper-Willis

See above for biographical information.

J. Kong

Janis Kong is Executive Chairman of Heathrow Airport Ltd and a member of the BAA plc Board. She is a founder member of the South East England Development Agency. She holds an honorary Doctorate with the Open University and has received an OBE.

B.S. Thomas

See above for biographical information.

Employees' involvement

The Group recognises the importance of good communications with its employees and considers that the most effective form of communication regarding its activities, performance and plans is by way of informal daily discussions between management and other employees. During 2002, to complement these discussions, the Company has continued communicating information from Board level to all employees on a monthly basis via a programme of team briefing. Share option and profit related bonus schemes are operated to encourage the involvement of employees in the Group's performance. Portmeirion Potteries Limited, the employer of the Group's UK based employees achieved recognition as an Investor in People during 2001. The Directors are committed to the continuing development of the Group's employees via the principles of Investors in People.

Employment of disabled persons

It is the Group's policy to give disabled people full and fair consideration for all job vacancies for which they offer themselves as suitable candidates, having regard to their particular aptitudes and abilities. Training and career development opportunities are available to all employees and if necessary all efforts are made to re-train any member of staff who develops a disability during employment with the Group.

Substantial shareholdings

In addition to the Directors' interests notified above, the Company had been notified of the following beneficial interests in 3% or more of its issued share capital as at 11th March 2003:

	Number of shares	Percentage
Fortress Finance Investment Inc	1,150,000	11.06%

Allotment of shares

By law, shareholders' approval is required for the allotment of shares. Approval may either be given for particular allotments or by a general authority. The Directors were given a general authority to allot shares at the Annual General Meeting on 21st May 2002 in respect of £173,153 of share capital. This authority expires on 20th May 2007. Approval is being sought in Resolution 6 at the Annual General Meeting in respect of a general authority to allot up to £173,287 (being less than a third of the present issued share capital), to expire on 27th May 2008.

Shareholders' approval is also required for the issue of shares wholly for cash otherwise than in accordance with certain statutory pre-emption provisions contained in the Companies Act 1985. Approval is being sought in Resolution 7 at the Annual General Meeting to renew authorities in respect of the allotment pursuant to a rights issue of all the £173,287 of share capital whose allotment is authorised, the allotment of Ordinary shares pursuant to the terms of the employee share schemes and of up to £25,993 of share capital (being less than five per cent of the issued share capital of the Company) otherwise than on a rights issue. The Directors intend to propose that these authorities be renewed annually.

Authority for market purchase of own shares

Resolution 8 at the Annual General Meeting is a special resolution which will provide the authority for the Company to make market purchases of its own shares. Further details are given in the Notice of Annual General Meeting. The Directors intend to propose that this authority be renewed annually.

Financial instruments

The Group's net funds at 31st December 2002 were £7.7million (2001 - £5.2million). The Group's policy is to place funds on short-term deposit with highly rated institutions. The Group has no bank borrowings.

The Group has exposure to foreign currency risk arising from its net investments in and cash flows from overseas subsidiaries and associates. Its policy in managing this risk is to maintain appropriate levels of net assets in the overseas companies and utilise foreign currency forward contracts.

The most significant exposure to foreign currency arises from the US dollar sales made by the UK subsidiary to the US subsidiary. Forward contracts are in place to cover approximately 75% of the expected US dollar receipts for 2003.

The Group enters into derivative transactions only to manage exposure arising from its underlying business. No speculative derivative contracts are entered into. Note 25 on page 41 provides further disclosure of the Group's financial instruments.

The Euro

The Group has reviewed the impact of the Euro on its operations. The facility to transact in Euros was available from 1st January 1999. We have received assurances regarding the future Euro compliance of our accounting software from its authors.

Creditor payment policy
Payment terms are agreed with each of the Company's major suppliers. The Company abides by these terms provided that the supplier also complies with the agreed terms and conditions. The policy for other suppliers is generally to make payment by the end of the month following receipt of a valid invoice. All payment terms are stated at the time orders are placed. The number of days purchases represented by trade creditors at 31st December 2002 was 36 (2001 - 38). The Company has no trade creditors.

Charitable and political contributions
Contributions to various charities in the form of goods during the year amounted to £10,597 (2001 - £9,288) at cost. There were no political contributions during the year.

Company status
As far as the Directors are aware, the Company is not a close company as defined by the Income and Corporation Taxes Act 1988.

Auditors
Deloitte & Touche have expressed their willingness to continue in office as auditors. A resolution for their re-appointment is to be proposed at the forthcoming Annual General Meeting.

Annual General Meeting
The Annual General Meeting will be held at the registered office of the Company at London Road, Stoke-on-Trent, on 28th May 2003 at 12.00 p.m. The ordinary and special resolutions to be proposed at that meeting are detailed in the Notice of Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

B.W.J. Phillips
Secretary

11th March 2003

Introduction
This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31st December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Regulations require the auditors to report to the Company's members on the "auditable part" of the Directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

Remuneration committee
The Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. The members of the committee are R. J. Steele, J. Kong and B. S. Thomas who are all independent Non-executive Directors. R. J. Steele is the Senior Non-executive Director and Chairman of the Remuneration Committee. There have been no changes in the composition or chairmanship of the Remuneration Committee during the year.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross directorships or day to day involvement in running the business. The Committee makes recommendations to the Board. No Director plays a part in any discussion about his or her own remuneration.

In determining the Directors' remuneration for the year, the Committee consulted A. W. Ralley, Chairman, and L. F. Bryan, Chief Executive, about its proposals.

Remuneration policy
Executive remuneration packages are prudently designed to attract, motivate and retain directors of high calibre and to reward them for enhancing value to shareholders. The performance measurement of the Executive Directors and the determination of their annual remuneration package are undertaken by the Committee. The remuneration of the Non-executive Directors is determined by the Executive Directors.

There are five main elements of the remuneration package for Executive Directors and senior management:

- Basic annual salary (including directors' fees) and benefits;
- Annual bonus payments;
- Share option incentives;
- Long-term incentives; and
- Pension arrangements.

The Company's policy is that a substantial proportion of the remuneration of the Executive Directors should be performance related. As described below, Executive Directors may earn annual incentive payments of up to 23% of their basic salary together with the benefits of participation in share option and long-term incentive schemes.

Executive Directors are entitled to accept appointments outside the Group providing that the Chairman's permission is granted.

Basic salary and benefits in kind
Salary is normally reviewed annually, on 1st January, or when responsibilities change. In deciding the appropriate levels, the Committee takes into account factors which it considers necessary including industry standard executive remuneration and comparable pay levels within the Company. Each Executive Director is provided with health care benefits.

Annual performance related bonus

Each Executive Director's remuneration package includes a performance related bonus expressed as a percentage of his salary. The percentage of salary payable as bonus in 2003, is dependent upon the achievement of the performance criteria set out in the following table.

Director	Bonus for achieving 89% of budget PBT % of salary	Additional bonus for achieving 95% of budget PBT % of salary	Additional bonus for achieving budget PBT % of salary	Maximum additional bonus for achieving PBT 27% above budget % of salary	Maximum total bonus % of salary
L.F. Bryan	2.0%	2.50%	11.0%	7.5%	23.0%
A.M. Miles	2.0%	2.50%	11.0%	7.5%	23.0%
B.W.J. Phillips	2.0%	2.50%	11.0%	7.5%	23.0%
A.W. Ralley	2.0%	2.50%	11.0%	7.5%	23.0%

The bonus for achieving a profit before tax above the 2003 budget increases pro-rata up to a maximum of 7.5% of salary for a profit before tax of 27% more than budget.

Demanding budgets and targets are established by the Board and reviewed at the end of each year to determine the degree of successful achievement.

Share options

During the year ended 31st December 2002, following approval at the Annual General Meeting, the Company established a new share option scheme (the Portmeirion 2002 Share Option Scheme). The reason for the new scheme was to incentivise the Executive Directors to drive performance and promote the creation of shareholder value. The Committee has responsibility for supervising the scheme and the grant of options under its terms.

Options granted to the Executive Directors under the Portmeirion 2002 Share Option Scheme on 11th June 2002 can only be exercised between the third and fourth anniversaries of the date of grant and then only if, for the year ending 31st December 2004, the Group's pre-tax profit is not less than £6.4 million and is not less than 15 per cent of turnover in that year.

The Executive Directors have options granted to them under the 1997 Approved Company Share Option Plan and the 1997 Unapproved Share Option Scheme. The exercise of options granted under the schemes is not dependent on performance criteria. It was not common practice to issue options exercisable subject to performance criteria when these options were granted.

The performance condition relating to the exercise of options granted after 31st December 2002 is that the growth in the basic earnings per share shown in the Group's audited accounts over the three years following the financial year immediately before the financial year in which the options were granted, is 15 per cent.

Long-term incentive schemes

The Group operates a long term incentive scheme, the "Phantom Share Option Scheme 2001", for the benefit of all Executive Directors and certain employees. The scheme was introduced on 14th March 2001. The scheme entitles Executive Directors to earn an incentive payment, to be paid in March 2004, based on the movement in Company share price between the average mid-market price over 19th, 20th and 21st March 2001, being £1.692, and the average mid-market price over the three trading days after the day on which the 2003 results are announced subject to a maximum increase in value per share of £4.00. The incentive payment is calculated by reference to nominal shareholdings.

The performance condition relating to the incentives granted after 31st December 2002 under the "Phantom Share Option Scheme" is that the growth in the basic earnings per share shown in the Group's audited accounts over the three years following the financial year immediately before the financial year in which the incentives were granted, is 15 per cent.

Pensions

All the Executive Directors, except L.F. Bryan, are members of the Portmeirion Potteries Group Stakeholder Pension Plan. Annual performance related bonuses are subject to contributions by the Company to the money purchase pension arrangements maintained for the Directors.

On 31st October 2002 the Portmeirion Potteries Pension Plan, a contracted-in money purchase occupational pension plan, closed. A.M. Miles and B.W.J. Phillips were members of the plan at that time and hold preserved benefits.

On 5th April 1999, the defined benefit UK pension scheme was closed to new entrants and to future accrual.
A.M. Miles and B.W.J. Phillips were members of the scheme at that time and hold preserved benefits.

L.F. Bryan receives pension contributions from a money purchase pension operated by the Group in the United States.

Performance graph

The following graph shows the Group's performance, measured by total shareholder return, compared with the performance of the FTSE Household Goods and Textiles Index, also measured by total shareholder return. The FTSE Household Goods and Textiles Index has been selected for this comparison because it is the index which contains the Group's UK quoted competitors and because it has been a constituent of this index throughout the period.

Directors' contracts

It is the Company's policy that Executive Directors should have contracts with an indefinite term providing for a maximum of one year's notice.

L.F. Bryan, E.S. Cooper-Willis and B.S. Thomas are proposed for re-election at the next Annual General Meeting. They all have contracts which provide for a notice period of one year.

The details of the Executive Directors' contracts are summarised in the table below:

	Date of Contract	Notice Period
A.W. Ralley	11.10.2000	12 months
L.F. Bryan	8.11.2002	12 months
A.M. Miles	15.03.2000	12 months
B.W.J. Phillips	15.03.2000	12 months

In the event of early termination, the Directors' contracts provide for compensation of an amount equal to the gross salary that the executive would have received during the balance of the notice period, plus any bonus, once declared, to which he/she would have become entitled had contractual notice been given.

Non-executive Directors

All Non-executive Directors have service contracts with an indefinite term providing for a maximum of one year's notice, without liability for compensation. Their remuneration is determined by the Board taking into account their duties and the level of fees paid to Non-executive Directors of similar companies. The Non-executive Directors do not participate in the Company's bonus or share option schemes and no pension contributions are made in respect of them.

Audited information

Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2002 £	2001 £
Emoluments	648,014	631,172
Compensation for loss of office	-	192,966
Gains on exercise of share options	4,200	-
Amounts receivable under long-term incentive schemes	-	-
Money purchase pension contributions	37,297	46,709
	689,511	870,847

Directors' emoluments

	Salary & fees £	Benefits £	Bonus £	Pension Contri-butions £	2002 Total £	2001 Total £
Executive						
A.W. Ralley	93,713	-	15,032	-	108,745	89,250
L.F. Bryan	160,562	1,245	25,754	15,750	203,311	155,253
A.M. Miles	112,350	350	-	10,112	122,812	103,283
B.W.J. Phillips	103,447	5,293	20,000	11,435	140,175	107,542
Non-executive						
E.S. Cooper-Willis	58,538	-	-	-	58,538	49,118
J. Kong	16,540	-	-	-	16,540	15,750
R.J. Steele (1)	18,650	-	-	-	18,650	17,750
B.S. Thomas (2)	16,540	-	-	-	16,540	15,750
Total	580,340	6,888	60,786	37,297	685,311	553,696

Notes

(1) The remuneration for R.J. Steele was made to Adsum Limited in respect of his services.

(2) The remuneration for B.S. Thomas was made to BT Consulting in respect of her services.

(3) The total Directors' remuneration figure for 2001 included £317,151 in respect K. Farhadi for the period up to his resignation on 15th August 2001. This figure included total compensation in the amount of £192,966.

The benefits shown above arise from the provision of company cars and private medical insurance.

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire Ordinary shares in the Company granted to or held by the Directors. Details of the options exercised during the year are as follows:

Director	Scheme	Number of options	Exercise price	Market price at exercise date	Gains on exercise 2002 £	Gains on exercise 2001 £
L.F. Bryan	The 1997 Unapproved Share Option Scheme	8,000	142.5p	195.0p	4,200	-

Details of options for Directors who served during the year are as follows:

Director	At 01.01.02	Granted	Exercised	Lapsed	At 31.12.02	Exercise Price	Date from which Exercisable	Expiry Date
		Number of Options						
The 1997 Unapproved Share Option Scheme								
L.F. Bryan	8,000	-	8,000	-	-	142.5p	09.04.2002	09.04.2003
L.F. Bryan	-	50,000	-	-	50,000	187.5p	09.04.2005	09.04.2006
A. M. Miles	7,000	-	-	7,000	-	215.0p	24.04.2001	24.04.2002
A. M. Miles	4,000	-	-	4,000	-	192.5p	15.09.2001	15.09.2002
A. M. Miles	8,000	-	-	-	8,000	142.5p	09.04.2002	09.04.2003
A. M. Miles	-	14,000	-	-	14,000	187.5p	09.04.2005	09.04.2006
B.W.J. Phillips	8,000	-	-	8,000	-	215.0p	24.04.2001	24.04.2002
B.W.J. Phillips	-	24,200	-	-	24,200	187.5p	09.04.2005	09.04.2006
A.W. Ralley	-	34,000	-	-	34,000	187.5p	09.04.2005	09.04.2006
The 1997 Approved Company Share Option Plan								
A. M. Miles	-	16,000	-	-	16,000	187.5p	09.04.2005	09.04.2006
B.W.J. Phillips	4,000	-	-	4,000	-	192.5p	26.08.2001	26.08.2002
B.W.J. Phillips	8,000	-	-	-	8,000	142.5p	09.04.2002	09.04.2003
B.W.J. Phillips	-	5,800	-	-	5,800	187.5p	09.04.2005	09.04.2006
A.W. Ralley	-	16,000	-	-	16,000	187.5p	09.04.2005	09.04.2006
The 2002 Share Option Scheme								
L.F. Bryan	-	160,000			160,000	195.0p	11.06.2005	11.06.2006
A. M. Miles	-	100,000	-	-	100,000	195.0p	11.06.2005	11.06.2006
B.W.J. Phillips	-	100,000	-	-	100,000	195.0p	11.06.2005	11.06.2006
A.W. Ralley	-	160,000	-	-	160,000	195.0p	11.06.2005	11.06.2006

(1) The performance criteria attaching to share options are detailed on page 15.
(2) The share price reached a high of 207.5p and a low of 165.0p during 2002. The average share price during 2002 was 184.4p.

Long-term incentive schemes
The Directors participating in the Phantom Share Option Scheme 2001 at the end of 2002 are shown below together with their interests.

	Nominal shareholding at 31st December 2001	Nominal shareholding at 31st December 2002	Interest at 31st December 2002 £
L.F. Bryan	50,000	50,000	6,650
A.M. Miles	30,000	30,000	3,990
B.W.J. Phillips	30,000	30,000	3,990
A.W. Ralley	50,000	50,000	6,650

(1) The share price at 31st December 2002 was £1.825.
(2) No nominal shareholdings were granted to Directors during the year.
(3) The performance criteria attaching to long-term incentives are detailed on page 15.

Approval
This report was approved by the Board and signed on its behalf by:

B.W.J. Phillips
Company Secretary

11th March 2003

CORPORATE GOVERNANCE STATEMENT

In June 1998 the Combined Code relating to corporate governance was published and adopted as best practice by the London Stock Exchange. The Combined Code is based on the report of the Hampel Committee and sets out Principles of Good Corporate Governance and Code Provisions also consolidating the work of the earlier Cadbury and Greenbury Committees. Section 1 of the Combined Code is applicable to companies.

Statements on how the Company has applied the Principles and explaining the extent to which the Provisions have been complied with are given below.

APPLIANCE STATEMENT

The Combined Code established fourteen Principles of Good Governance in the four areas described below.

Directors

The Company is controlled by the Board of Directors, comprising four Executive and four Non-executive Directors. The Board considers that three of the four Non-executive Directors bring an independent judgement to bear. The fourth, E.S. Cooper-Willis, was previously Executive Chairman. All Non-executive Directors have contracts which expire on the completion of one year's notice.

A.W. Ralley, the Chairman, is responsible for the running of the Board and L.F. Bryan, the Chief Executive, has executive responsibility for running the Company's business and implementing Group strategy. All Directors have direct access to the advice and services of the Company Secretary and are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

The Board meets at least six times each year and has a formal schedule of matters reserved to it. It is responsible for overall Group strategy, approval of major capital expenditure projects and consideration of significant financial matters. It monitors the exposure to key business risks and reviews the strategic direction of all trading subsidiaries, their annual budgets, their performance in relation to those budgets and their capital expenditure. In addition to ongoing review, minutes of the meetings of the Directors of the main UK subsidiary are circulated to the Group Board of Directors. Relevant information is circulated to the Directors in advance of meetings. During the year the Executive Directors have taken part in strategic and developmental training programmes. All Directors except for the Chief Executive are subject to retirement by rotation at regular intervals in accordance with the Company's Articles of Association as described below. Following the principles of the Combined Code the Chief Executive, who was appointed such in 2001, intends to retire for re-election every third year.

The current composition of the Board of Directors and the standing Board Committees and the number of meetings held during the year are set out below. The three Committees have been operating for a number of years, however their written terms of reference were all revised in November 1998 to bring them more closely into line with the Principles and Provisions set out in the Combined Code. R.J. Steele, J. Kong and B.S. Thomas have been members of all three Committees during their tenure as Non-executive Directors.

Board of Directors ***6***

A. W. Ralley (Chairman)
L. F. Bryan (Chief Executive)
E. S. Cooper-Willis (Non-executive)
J. Kong (Non-executive)
A. M. Miles
B. W. J. Phillips
R. J. Steele (Senior Non-executive)
B. S. Thomas (Non-executive)

Nomination Committee ***2***

A. W. Ralley (Chairman)
L.F. Bryan
E.S. Cooper-Willis
J. Kong
R. J. Steele
B. S. Thomas

Audit Committee ***2***

R. J. Steele (Chairman)
J. Kong
B. S. Thomas

Remuneration Committee ***2***

R. J. Steele (Chairman)
J. Kong
B. S. Thomas

The Nomination Committee makes recommendations to the Board on all new Board appointments. It meets at least once a year and also considers the re-election of Directors retiring by rotation. The Company's Articles of Association stipulate that one third of the Directors other than the Chief Executive or the nearest whole number below one third shall retire each year. The Company requires Directors to submit themselves for re-election at least every three years.

Directors' Remuneration

The Remuneration Committee is responsible for making recommendations to the Board in relation to all aspects of remuneration for Executive Directors. It has complied throughout the year with the requirements of Section A of the best practice provisions annexed to the Listing Rules regarding remuneration committees. The Remuneration Committee believes that the presence of the Chairman and the Chief Executive is important in determining the remuneration of the other Executive Directors. The Chairman and Chief Executive do not participate in discussions relating to their personal remuneration. In framing its policy the Remuneration Committee takes into account any factors which it deems necessary, including industry standard executive remuneration, differentials between executive and employee remuneration, and differentials between executives. The remuneration of the Non-executive Directors is determined by the Executive Directors.

Further details of Directors' Remuneration can be found in the Remuneration Report on pages 14 to 18.

Relations with Shareholders

The Company encourages two way communication with both its institutional and private investors and responds quickly to all queries received. All shareholders have at least twenty working days notice of the Annual General Meeting at which all Committee chairmen will be available for questions.

Accountability and Audit

Financial Reporting

The Chief Executive's Review on page 8 summarises the Group's performance in the year. The Board uses this, together with the Chairman's Statement on pages 4 and 5 and the Report of the Directors on pages 10 to 13, to present a balanced and understandable assessment of the Group's position and prospects. The respective responsibilities of the Directors and auditors in this area are described on pages 21 and 22.

Internal Control

The Board acknowledges that it is responsible for the Group's system of internal control and for reviewing its effectiveness.

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place throughout the financial year and has remained in place up to the approval date of the annual report and accounts. That process is regularly reviewed by the Board and accords with the Internal Control guidance for directors on the combined code produced by the Turnbull working party.

The Board intends to keep its risk control procedures under constant review particularly with regard to the need to embed internal control and risk management procedures further into the operations of business, both in the UK and overseas, and to deal with areas of improvement which come to management's and the Board's attention.

As might be expected in a group of this size, a key control procedure is the day to day supervision of the business by the Executive Directors, supported by the senior managers with responsibility for key operations.

The Executive Directors are involved in the budget setting process, constantly monitor key performance indicators and review management accounts on a monthly basis, noting and investigating major variances. All significant capital expenditure decisions are approved by the Board as a whole.

The Group's significant risks, together with the relevant control and monitoring procedures, are subject to regular review to enable the Board to assess the effectiveness of the system of internal control. The adequacy of internal controls with regard to the risks identified are reviewed at every Board meeting. The Board has also specifically reviewed the effectiveness of the Group's internal financial controls.

The Board has considered the need for an internal audit function, but has decided that, because of the size of the Group and the systems and controls in place, it is not appropriate at present. The Board will review this on a regular basis.

The Group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Going Concern

Having made appropriate enquiries, the Directors consider that the Group has adequate resources to continue operations for the foreseeable future. Accordingly, the financial statements continue to be prepared on a going concern basis.

Audit Committee and Auditors

The Audit Committee meets at least twice each year. It considers any matter relating to the financial affairs of the Group and to the Group's external audit that it determines to be desirable. In particular the Committee overviews the monitoring of the adequacy of the Group's internal controls, accounting policies and financial reporting and provides a forum through which the Group's external auditors report to the Non-executive Directors.

COMPLIANCE STATEMENT

The Listing Rules require the Board to report on compliance, throughout the accounting period, with the forty-five Code Provisions. The Company has complied with the Provisions set out in Section 1 of the Combined Code throughout the year ended 31st December 2002.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

To the Members of Portmeirion Group PLC

We have audited the financial statements of Portmeirion Group PLC for the year ended 31st December 2002 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in consolidated shareholders' funds, accounting policies and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Company's Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Directors' remuneration report. Our responsibility is to audit the financial statements and the part of the Directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, 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 whether the financial statements and the part of the Directors' remuneration report described as having been audited have been 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 with the Company and other members of the Group is not disclosed.

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

We read the Report of the Directors and other information contained in the Annual Report for the above year as described in the contents section including the unaudited part of the Directors' remuneration report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 and the part of the Directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 and the part of the Directors' remuneration report described as having been audited 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 and the part of the Directors' remuneration report described as having been audited.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2002 and of the profit of the Group for the year then ended and the financial statements and the part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Birmingham **11th March 2003**

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December 2002

	Notes	2002 £000's	2001 £000's
Turnover – continuing operations	1	**30,712**	29,626
Raw materials and operating costs	2	**(28,174)**	(28,492)
Operating profit – continuing operations	4	**2,538**	1,134
Share of profit of associated undertakings		**230**	245
Interest receivable and similar income	5	**155**	244
Profit on ordinary activities before taxation		**2,923**	1,623
Taxation on profit on ordinary activities	6	**(870)**	(623)
Profit on ordinary activities after taxation being the profit for the financial year	7	**2,053**	1,000
Dividends	8	**(1,378)**	(1,377)
Retained profit/(loss) for the financial year	17	**675**	(377)
Earnings per share	9	**19.75p**	9.63p
Diluted earnings per share	9	**19.71p**	9.61p
Dividends per share	8	**13.25p**	13.25p

Movements on reserves during the year are shown in Note 17 on page 36.

CONSOLIDATED BALANCE SHEET

As at 31st December 2002

	Notes	2002 £000's	2002 £000's	2001 £000's	2001 £000's
Fixed assets					
Tangible assets	10		**8,249**		8,952
Investments	11		**1,503**		1,453
			9,752		10,405
Current assets					
Stocks	12	**6,195**		7,591	
Debtors	13	**5,715**		6,110	
Cash at bank and in hand		**7,678**		5,205	
		19,588		18,906	
Creditors: amounts falling due within one year	14	**(4,732)**		(4,851)	
Net current assets			**14,856**		14,055
Total assets less current liabilities			**24,608**		24,460
Provisions for liabilities and charges	15		**(261)**		(192)
Net assets			**24,347**		24,268
Capital and reserves					
Called up share capital	16		**520**		519
Share premium account	17		**4,547**		4,536
Profit and loss account	17		**19,280**		19,213
Equity shareholders' funds			**24,347**		24,268

These financial statements were approved by the Board of Directors and signed on 11th March 2003 on its behalf by:

L. F. Bryan
B. W. J. Phillips } Directors

COMPANY BALANCE SHEET

As at 31st December 2002

	Notes	2002 £000's	2002 £000's	2001 £000's	2001 £000's
Fixed assets					
Investment in subsidiary undertakings	11		**1,455**		1,455
Current assets					
Debtors – loans owed by subsidiary undertakings falling due after more than one year		**10,911**		10,911	
Cash		–		1	
		10,911		10,912	
Creditors: amounts falling due within one year	14	**(2,867)**		(1,452)	
Net current assets			**8,044**		9,460
Net assets			**9,499**		10,915
Capital and reserves					
Called up share capital	16		**520**		519
Share premium account	17		**4,547**		4,536
Other reserves	17		**197**		197
Profit and loss account	17		**4,235**		5,663
Equity shareholders' funds			**9,499**		10,915

These financial statements were approved by the Board of Directors and signed on 11th March 2003 on its behalf by:

L F. Bryan
B. W. J. Phillips
} Directors

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2002

	Notes	2002 £000's	2001 £000's
Cash inflow from operating activities	18	**5,053**	1,252
Returns on investments and servicing of finance	19	**175**	244
Taxation		**(827)**	(1,018)
Capital expenditure and financial investment	19	**(563)**	(1,034)
Equity dividends paid		**(1,377)**	(1,377)
Cash inflow/(outflow) before use of liquid resources and financing		**2,461**	(1,933)
Management of liquid resources		**(1,824)**	1,350
Financing	19	**12**	–
Increase/(decrease) in cash in the year		**649**	(583)

Reconciliation of net cash flow to movement in net funds (Note 20)

	2002 £000's	2001 £000's
Increase/(decrease) in cash in the year	**649**	(583)
Cash outflow/(inflow) from increase/(decrease) in liquid resources	**1,824**	(1,350)
Net funds at 1st January	**5,205**	7,138
Net funds at 31st December	**7,678**	5,205

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31st December 2002

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2002 £000's	2001 £000's
Profit for the financial year	**2,053**	1,000
Currency translation differences	**(608)**	169
Total recognised gains and losses for the financial year	**1,445**	1,169

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £000's	2001 £000's
Profit for the financial year	**2,053**	1,000
Dividends	**(1,378)**	(1,377)
Currency translation differences	**(608)**	169
Shares issued under employee share schemes	**12**	–
Net addition/(reduction) to shareholders' funds	**79**	(208)
Opening shareholders' funds	**24,268**	24,476
Closing shareholders' funds	**24,347**	24,268

(a) Accounting basis
The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

(b) Consolidation
The Group accounts include the accounts of the Company and of its subsidiary undertakings. The Group's share of the results and retained earnings of associated undertakings is included. All accounts for subsidiaries and associated companies have been prepared for the year ended 31st December 2002 except for the accounts of Portmeirion Finance Limited which, for cashflow reasons associated with the date of payment of tax, have been prepared for the year ended 7th January 2003 and the accounts of Portmeirion Canada Inc. which have a year end of 30th June 2002. The Group accounts include interim financial information to 31st December 2002 for Portmeirion Finance Limited and the results of Portmeirion Canada Inc. for the year to 31st December 2002.

Where a subsidiary undertaking is acquired during the year its results are included from the effective date of acquisition. Prior to the introduction of FRS10 "Goodwill and Intangible Assets" any goodwill arising as a result of an acquisition was charged against reserves as a matter of accounting policy. This goodwill will be charged or credited to the profit and loss account on subsequent disposal of the business to which it related.

(c) Depreciation
(i) Tangible fixed assets
Depreciation is provided by either the reducing balance method or the straight line method at rates calculated to write off the cost of the assets less their estimated residual value over their expected useful lives:

Freehold buildings	– 2% per annum
Short leasehold buildings	– over the life of the lease
Plant and vehicles	– 10% to 33% per annum

(ii) Leased assets
Assets acquired under finance leases are capitalised and depreciated over their useful lives. The corresponding obligation is included as a creditor and interest is charged to the profit and loss account. Hire purchase transactions are dealt with similarly. Operating lease rentals are charged to the profit and loss account as incurred.

(d) Investments
Investments held as fixed assets are stated at cost or at the Group's share of the underlying net assets. Provision is made for impairment.

(e) Stock
Stocks of raw materials, work in progress and finished items are valued at the lower of cost and estimated net realisable value. The cost of work in progress and finished goods includes the appropriate proportion of factory direct costs and related production overheads.

(f) Turnover
Turnover represents the value of goods despatched by subsidiary undertakings to customers outside the Group and to its associated undertakings.

(g) Research and development
All expenditure on research and development is written off as it is incurred.

(h) Deferred taxation

The Group adopted FRS19 "Deferred Tax" in 2001. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(i) Translation of foreign currencies

(i) Trading

Transactions denominated in foreign currencies are translated at the rate ruling on the date of the transaction, unless matching forward exchange contracts have been entered into, in which case the rate specified in the relevant contract is used. At the balance sheet date unhedged monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at that date. Exchange differences arising on trading transactions are dealt with in the profit and loss account.

(ii) Overseas subsidiary undertakings

For consolidation purposes the results of the overseas subsidiary undertakings are translated at the average rate for the year and assets and liabilities are translated at the rate of exchange ruling at the balance sheet date.

Pre-acquisition reserves are translated at the rate of exchange ruling at the date of their acquisition by the Group.

Exchange differences arising from the above are dealt with through reserves.

(iii) Overseas associated undertakings

For consolidation purposes the assets, liabilities and results of the overseas associated undertakings are translated at the rate of exchange ruling at the balance sheet date.

Exchange differences arising from the above are dealt with through reserves.

(j) Group pension schemes

From 6th April 1999 the Group has operated two defined contribution pension schemes in the UK. Contributions to defined contribution schemes are charged to the profit and loss account as they are incurred.

The defined benefits scheme previously operated by the Group closed on 5th April 1999.

In the United States, the Group operates a money purchase pension scheme with payments being made to the scheme at the discretion of the Group. All payments are written off as they are incurred.

1. Segmental analysis

The Directors are of the opinion that only one class of business is being undertaken, that of the manufacture and sale of pottery and associated homeware. The geographical analyses are as follows:

Turnover by destination	2002 £000's	2001 £000's
United Kingdom	12,820	12,576
North America	12,108	12,625
European Union	1,792	2,006
Far East	3,448	1,721
Rest of the World	544	698
	30,712	29,626

Turnover by origin	2002 Total sales £000's	2002 Inter-segment sales £000's	2002 Sales to third parties £000's	2001 Total sales £000's	2001 Inter-segment sales £000's	2001 Sales to third parties £000's
United Kingdom	25,479	(6,375)	19,104	24,893	(7,042)	17,851
North America	11,207	–	11,207	11,562	–	11,562
Far East	401	–	401	213	–	213
	37,087	(6,375)	30,712	36,668	(7,042)	29,626

Operating profit by origin	2002 £000's	2001 £000's
United Kingdom	3,140	1,926
North America	(380)	(575)
Far East	(222)	(217)
Operating profit	2,538	1,134

Net assets by origin	2002 £000's	2001 £000's
United Kingdom	19,561	18,256
North America	3,958	5,363
Far East	359	230
Operating net assets	23,878	23,849
Unallocated net assets	469	419
Total net assets	24,347	24,268

Unallocated net assets consist of dividends payable of £1,034,000 (2001 – £1,034,000) and investments in associated undertakings of £1,503,000 (2001 – £1,453,000).
Details of investments in associated undertakings are provided in Note 11 on page 34.

2. Raw materials and operating costs

	2002 £000's	2001 £000's
Change in stocks of finished goods and work in progress	**1,423**	(1,114)
Raw materials and consumables	**6,327**	8,033
Other external charges	**7,710**	8,833
Staff costs (see Note 3)	**11,483**	11,523
Depreciation of tangible fixed assets	**1,231**	1,217
	28,174	28,492

3. Staff numbers and costs

	2002 Number	2001 Number
The average number of persons employed during the year, including Directors:		
Operatives	**405**	421
Staff	**223**	233
	628	654
Staff costs:	**£000's**	£000's
Wages and salaries	**9,931**	9,999
Social security costs	**765**	806
Defined contribution and money purchase pension scheme costs	**787**	718
	11,483	11,523

Details of individual Directors' remuneration, pension contributions and pension entitlements required by the Companies Act 1985 and those specified for audit by the UK Listing Authority are shown in the Directors' Remuneration Report on pages 14 to 18. Details of Directors' current share options are shown in the Directors' Remuneration Report on page 18.

4. Operating profit

	2002 £000's	2001 £000's
Operating profit is stated after charging:		
Research and development	**223**	243
Auditors' remuneration – audit	**42**	40
– other services	**32**	22
Operating lease rentals – property	**368**	367

The audit fee for the Company was £2,000 (2001 – £2,000).

5. Interest receivable and similar income

	2002 £000's	2001 £000's
Bank deposits	**155**	244

6. Taxation on profit on ordinary activities

	2002 £000's	2001 £000's
United Kingdom Corporation tax at 30% (2001 – 30%)	840	641
Double taxation relief	–	(119)
Overseas taxation	(95)	–
Associated undertakings	76	89
Deferred taxation origination and reversal of timing differences	68	(11)
	889	600
Adjustments in respect of prior years:		
Corporation tax	(29)	(16)
Overseas taxation	10	7
Double taxation relief	–	32
	870	623

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% (2001 – 30%). The actual tax charge for the current and the previous year exceeds the standard rate for the reasons set out in the following reconciliation:

	2002 £000's	2001 £000's
Profit on ordinary activities before tax	2,923	1,623
Tax on profit on ordinary activities at standard rate	877	487
Factors affecting charge for the period:		
Accelerated capital allowances	78	–
Other timing differences	(66)	–
Expenses not deductible for tax purposes	43	33
Unrelieved losses in foreign subsidiaries	47	95
Foreign tax charged at higher rates than UK standard rate	(6)	14
Exchange adjustments	(76)	–
Adjustments to tax charge in respect of prior periods	(27)	(6)
Total actual amount of tax on profit on ordinary activities	870	623

7. Profit for the financial year

No profit and loss account is presented for the Company as permitted by section 230 of the Companies Act 1985. The consolidated profit of £2,053,000 (2001 - £1,000,000) includes a loss of £50,000 (2001 - £47,000) which is dealt with in the financial statements of the Company.

8. Dividends

	2002 £000's	2001 £000's
Interim 3.3p per share paid (2001 – 3.3p)	**343**	343
Final 9.95p per share proposed (2001 – 9.95p)	**1,035**	1,034
Total 13.25p per share (2001 – 13.25p)	**1,378**	1,377

9. Earnings per share

Basic

The basic earnings per share is calculated by dividing the profit after taxation of £2,053,000 (2001 - £1,000,000) by the weighted average number of Ordinary shares in issue during the year of 10,394,731 (2001 - 10,389,230).

Diluted

The diluted earnings per share is calculated in accordance with Financial Reporting Standard 14. This calculation uses a weighted average number of Ordinary shares in issue adjusted to assume conversion of all dilutive potential Ordinary shares and is shown below:

	2002 Earnings £	2002 Weighted No. of Shares	2002 Earnings per Share (Pence)	2001 Earnings £	2001 Weighted No. of Shares	2001 Earnings per Share (Pence)
Basic earnings per share	**2,053,000**	**10,394,731**	**19.75**	1,000,000	10,389,230	9.63
Effect of dilutive securities:						
employee share options	**–**	**23,092**	**–**	–	15,889	–
Diluted earnings per share	**2,053,000**	**10,417,823**	**19.71**	1,000,000	10,405,119	9.61

10. Tangible fixed assets – Group

	Land and buildings Freehold £000's	Land and buildings Short leasehold £000's	Plant and vehicles £000's	Total £000's
Cost				
At 1st January 2002	6,352	621	13,793	20,766
Additions	–	–	611	611
Disposals	–	–	(147)	(147)
Exchange adjustments	(20)	(14)	(13)	(47)
At 31st December 2002	**6,332**	**607**	**14,244**	**21,183**
Depreciation				
At 1st January 2002	1,351	200	10,263	11,814
Charge for year	110	48	1,073	1,231
On disposals	–	–	(90)	(90)
Exchange adjustments	(2)	(4)	(15)	(21)
At 31st December 2002	**1,459**	**244**	**11,231**	**12,934**
Net book value				
At 31st December 2002	**4,873**	**363**	**3,013**	**8,249**
At 31st December 2001	5,001	421	3,530	8,952

11. Investments

	2002 £000's	2001 £000's
Group		
Associated undertakings:		
Furlong Mills Limited		
2,080 Ordinary shares of £1 each representing 27.58% of the issued share capital		
Share of net assets	**982**	891
Discount on acquisition	**(13)**	(13)
	969	878
Portmeirion Canada Inc.		
100 common shares representing 50% of the issued share capital		
Share of net assets	**534**	575
	1,503	1,453

The increase of £50,000 in the amount disclosed under investments represents the Group's share of profits in associated undertakings.

	2002 £000's	2001 £000's
Company		
Subsidiary undertakings:		
30,000 Ordinary shares of £1 each in Portmeirion Potteries Limited representing 100% of the issued share capital at cost	**47**	47
100 Ordinary shares of no par value in Naugatuck Triangle Corporation representing 100% of the issued share capital at cost	**1,408**	1,408
	1,455	1,455

At 31st December 2002 the Company had the following subsidiary and associated undertakings:

Subsidiary undertakings	*Country of operation*	*Nature of business*
Portmeirion Potteries Limited	Great Britain	Pottery manufacturer
Portmeirion Finance Limited	Great Britain	Group finance company
Portmeirion Enterprises Limited *	Great Britain	Intermediate holding company
Portmeirion Distribution Limited *	Great Britain	Marketing and distribution of pottery and accessories
Portmeirion Services Limited *	Great Britain	Intermediate holding company
Portmeirion Japan K.K. * (Japan)	Japan	Marketing and distribution of pottery and accessories
Naugatuck Triangle Corporation (USA)	USA	Intermediate holding company
S. P. Skinner Co., Inc. (USA) **	USA	Marketing and distribution of pottery and accessories
Associated undertakings		
Portmeirion Canada Inc. (Canada)	Canada	Marketing and distribution of pottery and accessories
Furlong Mills Limited	Great Britain	Suppliers and millers of clay

The companies are incorporated in Great Britain and registered in England and Wales except where stated.

The share capital of all subsidiary undertakings consists solely of Ordinary shares.

* Wholly owned by Portmeirion Potteries Limited.

** Wholly owned by Naugatuck Triangle Corporation.

12. Stocks

	Group 2002 £000's	Group 2001 £000's
Raw materials and other consumables	927	900
Work in progress	1,209	1,336
Finished goods	4,059	5,355
	6,195	7,591

13. Debtors

	Group 2002 £000's	Group 2001 £000's
Trade debtors	4,761	5,322
Amounts owed by associated undertakings	80	91
Other debtors	309	275
Prepayments and accrued income	565	422
	5,715	6,110

14. Creditors: amounts falling due within one year

	Group 2002 £000's	Group 2001 £000's	Company 2002 £000's	Company 2001 £000's
Trade creditors	2,067	2,532	–	–
Amounts owed to subsidiary undertakings	–	–	1,790	376
Amounts owed to associated undertakings	12	–	–	–
Corporation tax	329	345	–	–
Other taxation and social security	586	492	6	6
Dividends payable	1,035	1,034	1,035	1,034
Other creditors	703	448	36	36
	4,732	4,851	2,867	1,452

15. Provisions for liabilities and charges

	£000's
Deferred taxation:	
Balance at 1st January 2002	192
Charge for year ended 31st December 2002	69
Balance at 31st December 2002	**261**

	2002 Provided in the accounts £000's	2002 Full potential £000's	2001 Provided in the accounts £000's	2001 Full potential £000's
Deferred taxation:				
Accelerated capital allowances	571	571	664	664
Short term timing differences	(310)	(310)	(472)	(472)
Deferred tax liability	261	261	192	192

No provision is required for deferred taxation in the accounts of the Company (2001 - £nil).
The above figures exclude taxation payable in the event of profits of overseas subsidiary undertakings being distributed.

16. Share capital

	2002		2001	
	Number 000's	£000's	Number 000's	£000's
Authorised share capital:				
Ordinary shares of 5p each	**15,000**	**750**	15,000	750
Allotted, called up and fully paid share capital:				
Ordinary shares of 5p each	**10,397**	**520**	10,389	519

The market price of the Company's shares at 31st December 2002 was 182.5p per share. During the year the price ranged between 165.0p and 207.5p per share.

8,000 Ordinary shares of 5p each were allotted to L. F. Bryan on 25th April 2002 for cash consideration of £11,400 under the Group's 1997 Unapproved Share Option Scheme.

Options granted to Directors and employees to acquire Ordinary shares of 5p in the Company and still outstanding at 31st December 2002 were as follows:

	Number of shares	Exercise price per share	Dates on which exercisable Earliest	Latest
The 1997 Approved Company Share Option Plan	16,000	142.5p	09.04.2002	09.04.2003
The 1997 Unapproved Share Option Scheme	74,000	142.5p	09.04.2002	09.04.2003
The 1997 Approved Company Share Option Plan	55,300	187.5p	09.04.2005	09.04.2006
The 1997 Unapproved Share Option Scheme	122,200	187.5p	09.04.2005	09.04.2006
The 1997 Approved Company Share Option Plan	28,200	195.0p	24.04.2005	24.04.2006
The 1997 Unapproved Share Option Scheme	4,300	195.0p	24.04.2005	24.04.2006
The Portmeirion 2002 Share Option Scheme	520,000	195.0p	11.06.2005	11.06.2006

Options held by the Directors are shown in the Directors' Remuneration Report on page 18.

17. Share premium account and reserves

	Share premium account £000's	Profit and loss account £000's
Group		
As at 1st January 2002	4,536	19,213
Retained profit for the year	–	675
Exchange adjustment	–	(608)
Premium on shares issued under option scheme	11	–
As at 31st December 2002	**4,547**	**19,280**

The cumulative amount of goodwill written off at 31st December 2002 was £515,000 (2001 - £515,000).
The balance carried forward on the profit and loss account of £19,280,000 (2001 - £19,213,000) includes the Group's share of associated undertakings' post acquisition reserves of £1,428,000 (2001 - £1,378,000).

	Other reserves £000's	Share premium account £000's	Profit and loss account £000's
Company			
As at 1st January 2002	197	4,536	5,663
Retained profit for the year	–	–	(1,428)
Premium on shares issued under option scheme	–	11	–
As at 31st December 2002	**197**	**4,547**	**4,235**

18. Reconciliation of operating profit to operating cash flows

	2002 £000's	2001 £000's
Operating profit	2,538	1,134
Depreciation	1,231	1,217
Exchange (loss)/gain	(478)	134
Loss/(profit) on sale of tangible fixed assets	9	(16)
Decrease/(increase) in stocks	1,396	(1,017)
Decrease/(increase) in debtors	461	(413)
(Decrease)/increase in creditors	(104)	213
Net cash inflow from operating activities	5,053	1,252

All of the above relate to continuing operations.

19. Analysis of cash flows for headings netted in the cash flow statement

	2002 £000's	2002 £000's	2001 £000's	2001 £000's
Returns on investments and servicing of finance				
Interest received	175		244	
Net cash inflow from returns on investments and servicing of finance		175		244
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(611)		(1,158)	
Sale of tangible fixed assets	48		124	
Net cash outflow for capital expenditure and financial investments		(563)		(1,034)
Financing				
Issue of Ordinary shares under share option scheme	12		–	
Net cash inflow from financing		12		–

20. Analysis of net funds

	At 1st January 2002 £000's	Cash flow £000's	At 31st December 2002 £000's
Cash in hand, at bank	545	649	1,194
Short term money market deposits	4,660	1,824	6,484
Total	5,205	2,473	7,678

21. Commitments

Commitments in respect of non-cancellable operating leases falling due within the next twelve months are as follows:

	2002 Land and buildings £000's	2001 Land and buildings £000's
On leases expiring:		
Within one year	**–**	13
In two to five years	**238**	42
After five years	**162**	335

Capital commitments are as follows:	**2002 £000's**	2001 £000's
Contracted for	**–**	174

22. Contingent liabilities

The Company has given an unlimited guarantee to HSBC plc in respect of the bank borrowings of Portmeirion Potteries Limited and Portmeirion Finance Limited. At 31st December 2002 the gross borrowings of Portmeirion Potteries Limited and Portmeirion Finance Limited amounted to £nil (2001 – £nil).

Included in short term money market deposits (Note 20) is an advance of a European grant of £429,000 . The amount secures a guarantee from the Group's bankers, HSBC plc.

23. Related party transactions

The transactions during the year, and outstanding balances at 31st December 2002, with associated undertakings were:

	Purchases £000's	Sales £000's	Debtor £000's	Creditor £000's
Portmeirion Canada Inc.	–	582	80	–
Furlong Mills Ltd.	451	–	–	12

Several of the Directors made purchases of goods from the Group during the year on the same terms as those available to all employees. Total purchases did not exceed £250 for each Director except for the following:

	£
B. W. J. Phillips	**10,240**

No other Director of the Company had a financial interest in any material contract, other than those for service, to which the Company was a party during the financial year.

24. Pensions

The Group operates a group stakeholder pension plan in the UK. This plan has operated from 1st November 2002 following the closure of the Portmeirion Potteries Pension Plan, a contracted-in money purchase occupational pension plan.

The UK defined benefit scheme was closed to new entrants and for future accrual of benefits as at 5th April 1999.

For the defined benefit scheme, the most recent of triennial valuations was at 6th April 1999. The main actuarial assumptions used in the valuation were:

* Pre-retirement valuation rate of interest of 5.75% per annum
* Post-retirement valuation rate of interest of 4.75% per annum
* Increases to pensions in payment of 5% per annum on benefits in excess of the guaranteed minimum pension (GMP) earned prior to 6th April 1997 and 2.75% per annum on pensions earned after 6th April 1997 and GMP earned after 6th April 1988.

At the date of the last valuation the market value of the scheme assets was £12,680,000 and the scheme had a deficiency of £539,000.

In accordance with FRS17 additional disclosure is provided below to reflect the current position of the scheme:

The actuarial valuation of the scheme was updated as at 31st December 2002 and 31st December 2001 by qualified actuaries. The major assumptions used by the actuaries were:

	2002	2001
Rate of increase in salaries	**not applicable**	not applicable
Rate of increase in pensions in payment:		
Post 06.04.88 GMP	**3.00%**	3.00%
Pre 06.04.97 excess over GMP	**5.00%**	5.00%
Post 06.04.97 pension	**2.50%**	2.50%
Rate of revaluation of pensions in deferment	**2.50%**	2.50%
Rate used to discount scheme liabilities	**5.75%**	5.90%
Inflation assumption	**2.50%**	2.50%

The fair value of the scheme assets, the present value of the scheme liabilities and expected rate of return on assets:

	2002 Expected rate of return	**2002 Fair value £000's**	2001 Expected rate of return	2001 Fair value £000's
Equities	**6.5%**	**4,851**	6.5%	5,067
Bonds	**4.5%**	**7,202**	4.5%	7,659
Insured annuities	**5.0%**	**230**	5.0%	230
Total fair value of assets		**12,283**		12,956
Present value of scheme liabilities		**(13,923)**		(12,124)
(Deficit)/surplus in the scheme		**(1,640)**		832
Recoverable surplus or deficit in the scheme		**(1,640)**		–
Related deferred tax		**–**		–
Net pension (liability)/asset		**(1,640)**		–

	2002 £000's	2001 £000's
Profit and loss account	**19,280**	19,213
Pension reserve	**(1,640)**	832
Profit and loss account	**17,640**	20,045

24. Pensions (continued)

FRS 17 "Retirement Benefits" has not been fully implemented. The standard requires the disclosure of the amounts which would have affected the profit and loss account, the statement of recognised gains and losses or the balance sheet if the standard had been fully implemented. For the year ended 31st December 2002 these amounts are:

Analysis of the amount which would have been charged to operating profit:

	2002 £000's
Current service cost	–
Past service cost	–
	–

Analysis of the amount which would have been charged to net finance charges:

	2002 £000's
Expected return on pension scheme assets	685
Interest on pension scheme liabilities	(715)
	(30)

Analysis of the actuarial loss which would have been recognised in the statement of recognised gains and losses:

	Note	2002 %	2002 £000's
Actuarial return less expected return on pension scheme assets	(i)	(9.5)	(1,169)
Experience gains and losses arising on the scheme liabilities	(ii)	5.1	(710)
Changes in assumptions underlying the present value of the scheme liabilities			(667)
	(ii)	18.3	(2,546)

(i) The percentage is of the fair value of scheme assets
(ii) The percentage is of the present value of scheme liabilities

Movement in scheme surplus during the year

	2002 £000's
Surplus as at 1st January 2002	832
Movement in year:	
Current service cost	–
Employer contributions	104
Past service cost	–
Other finance income	(30)
Actuarial loss	(2,546)
Shortfall as at 31st December 2002	(1,640)

Following the decision to close the scheme with effect from 5th April 1999 formal notice was given to employees in January 1999. A defined contribution pension scheme commenced on 6th April 1999 for all eligible UK employees.

All contributions deducted from employees and payable by the employer have been paid to the UK schemes.

In the United States there was a provision for payments into the money purchase scheme of £87,000 (2001 - £74,000) at 31st December 2002.

25. Financial instruments

Financial assets and liabilities

The additional narrative disclosures required by FRS13 are included on page 12 in the Report of the Directors.
The Group has defined financial assets and liabilities as those assets and liabilities of a financial nature, namely cash, short term money market deposits and borrowings. Short term debtors/creditors, taxation, prepayments and accruals have been excluded. All of the Group's financial assets and liabilities are at floating rates.

The Group's financial assets and their maturity profile are:

	2002 £000's	**2002 £000's**	2001 £000's	2001 £000's
Short term money market deposits:				
Sterling	**4,500**		3,250	
US Dollar	**1,488**		705	
Euro	**496**		705	
		6,484		4,660
Cash at bank and in hand:				
Sterling	**548**		(71)	
US Dollar	**355**		349	
Euro	**153**		169	
Japanese Yen	**38**		21	
Canadian Dollar	**100**		77	
		1,194		545
		7,678		5,205

Interest on assets is based on the relevant national inter bank rates.

Currency exposures

As explained on page 12 in the Report of the Directors, the Group's objectives in managing currency exposures arising from its net investments overseas (its structural currency exposures) are to maintain appropriate levels of net assets in its overseas subsidiaries and associates. Gains and losses arising from these structural exposures are recognised in the statement of total recognised gains and losses. The Group did not have a material financial exposure to foreign exchange gains or losses on monetary assets and monetary liabilities denominated in foreign currencies at 31st December 2002.

Fair values of financial assets and liabilities

The carrying amounts and estimated fair value of the Group's outstanding financial instruments are set out below:

	2002 Net carrying amount £000's	**2002 Estimated fair value £000's**	2001 Net carrying amount £000's	2001 Estimated fair value £000's
Cash at bank and in hand and short term money market deposits	**7,678**	**7,678**	5,205	5,205
Derivative financial instruments:				
Foreign exchange contracts	**–**	**190**	–	50

Cash at bank and in hand and short term money market deposits – The carrying values of cash and short term money market deposits approximate to their fair values because of the short term maturity of these instruments.

Foreign exchange contracts and futures – The Group enters into foreign exchange contracts and futures in order to manage its foreign currency exposure. The fair value of these financial instruments was estimated by using appropriate market foreign currency rates prevailing at the year end.

The Group's unrecognised gains on financial instruments were £190,000 and these are expected to be realised in the next financial year (2001 - £50,000 in the next financial year).

CONSOLIDATED PROFIT AND LOSS ACCOUNT INFORMATION

Years ended 31st December

	1998	1999	As restated 2000	2001	**2002**
	£000's	£000's	£000's	£000's	**£000's**
Turnover	26,013	27,469	30,727	29,626	**30,712**
Profit on ordinary activities before taxation	1,004	2,823	3,351	1,623	**2,923**
Taxation	(656)	(901)	(943)	(623)	**(870)**
Profit on ordinary activities after taxation	348	1,922	2,408	1,000	**2,053**
Dividends	(1,377)	(1,377)	(1,377)	(1,377)	**(1,378)**
Retained profit/(loss)	(1,029)	545	1,031	(377)	**675**
Earnings per share	3.35p	18.50p	23.18p	9.63p	**19.75p**

CONSOLIDATED BALANCE SHEET INFORMATION

At 31st December

	1998	1999	As restated 2000	2001	**2002**
	£000's	£000's	£000's	£000's	**£000's**
Capital employed					
Fixed assets	10,471	10,529	10,381	10,405	**9,752**
Net current assets	12,984	13,583	14,298	14,055	**14,856**
Provisions for liabilities and charges	–	–	(203)	(192)	**(261)**
	23,455	24,112	24,476	24,268	**24,347**
Financed by					
Called up share capital	519	519	519	519	**520**
Share premium account and reserves	22,936	23,593	23,957	23,749	**23,827**
	23,455	24,112	24,476	24,268	**24,347**

Years 1998 and 1999 have not been restated to reflect the adoption of FRS19 "Deferred Tax".


brittany denim

portmeirion®

designing beautiful products since 1960 – range diversification

Keeping abreast of consumer trends has always been at the heart of the Portmeirion brand. Focused and complementary product diversification is paramount in sustaining interest from the ever changing consumer marketplace. From new mug collections, candles, trays and placemats, to extensive coloured and hand painted glassware, Portmeirion's progressive diversification gives added value to both new and existing ranges.

FINANCIAL CALENDAR

Annual General Meeting

May

Interim Report

August

Dividends

Interim announced	August
Paid	October
Final announced	March
Paid	May