PORTMEIRION

portmeirion group plc

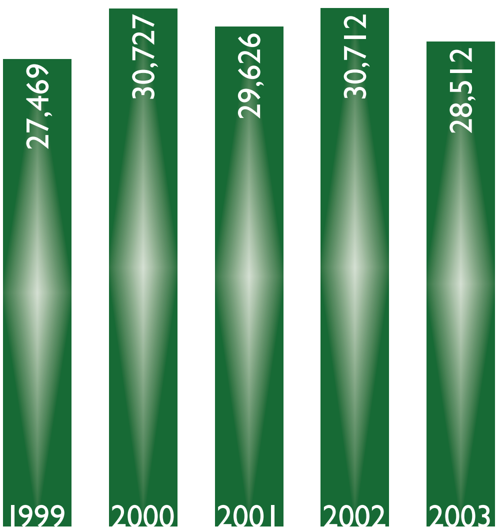
report & accounts 2003

contents

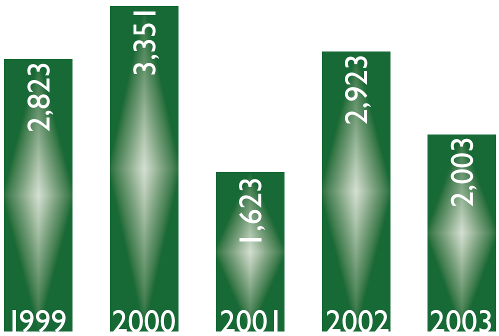
FINANCIAL HIGHLIGHTS

	2003 £000's	2002 £000's	Decrease
Turnover	**28,512**	30,712	7.2%
Pre-tax profit	**2,003**	2,923	31.5%
Earnings per share – Basic	**12.54p**	19.75p	36.5%
Dividends per share	**13.25p**	13.25p	–

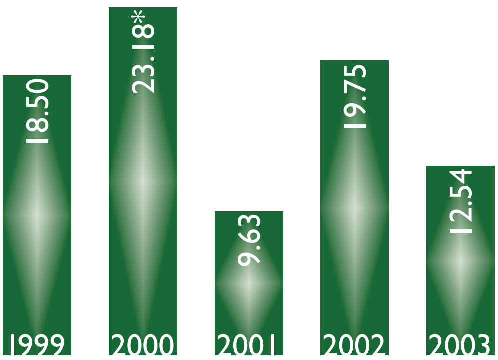
TURNOVER (£'000)



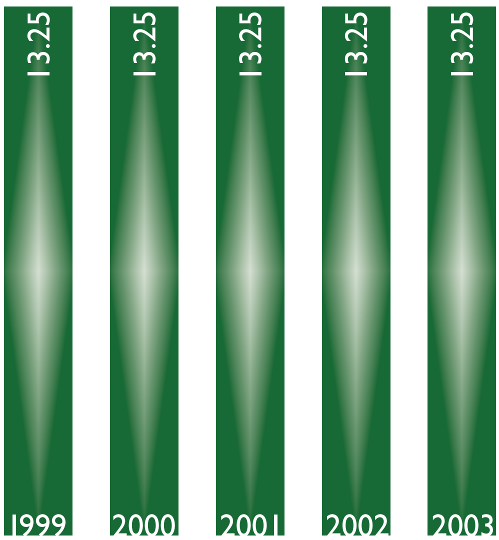
PRE-TAX PROFIT (£'000)



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 LLP
Birmingham

Bankers

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

Stockbrokers

KBC Peel Hunt Ltd
111 Old Broad Street
London
EC2N 1PH

Registrars

Capita Registrars
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Woodsome Park
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0870 162 3131

Solicitors

Pinsents
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Birmingham
B4 6BH

Kent Jones and Done
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47 Regent Road
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ST1 3RQ

chairman's statement

Sales for the year were £28.512m, 7.2% below the previous year.

The profit before tax of £2.003m compares with £2.923m for 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 2002.

Results for the year

The pre-tax profit of £2.003m was in line with expectations, and achieved even after a £234,000 charge in respect of impairment of an investment in an associate company which provides raw material to the pottery industry. Some improvement in the second half sales trend, together with tight cost control, enabled the company to achieve a pre-tax profit of £2.237m before this impairment charge.

Sales in the first half of the year were 8% below the previous year. The trend improved somewhat in the second half, with sales 6% below the previous year.

In our major markets, the UK sales declined by 6%, but also showed an improving trend in the second half due to increased sales of gift products. Overall, market conditions have been difficult in our product sector, and competition from lower cost retailers fierce. However, we have already seen an improvement, with UK sales in the first two months moving ahead of last year.

Sales in North America were 18% below the previous year, and now represent 35% of total Group sales (39% in 2002). Although the same improved sales trend in the second half was achieved in North America, the impact of the Iraq war, and the SARS epidemic, significantly impacted on the entire market's performance.

The Far East again proved to be the Group's most successful market, with sales increasing by 19% on the previous year, and accounting for over 14% of total sales. I believe there is great potential for continuing long-term growth in this region, and the Group will invest in the required management resources to bring this to fruition.

As referred to earlier, costs were well managed and resulted in a manufacturing gross profit margin broadly in line with last year. Given the reduction in manufactured volume, this was a commendable achievement, and reflects our commitment to lean techniques. I expect our investment in manufacturing efficiency will bring about further improvements.

A tight control on costs helped generate cash flows from operations of £1.9 million (£5.1 million in 2002). As a result, our strong balance sheet has only slightly decreased, with cash balances at the end of December 2003 totalling £7.2 million (2002: £7.7 million).

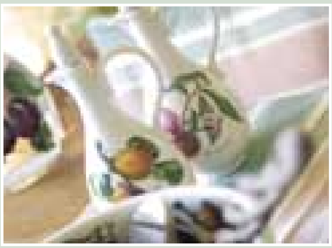
Given the Group's strong balance sheet, the Board have decided that the dividend for the year will be maintained at 13.25p.

Operating strategy

The Group has been adapting to rapidly changing market conditions. Overall price levels of ceramic tableware have been falling, as the amount of product imported from low cost countries such as the Far East has increased. Lower priced retailers, such as supermarkets, have moved to take advantage and taken increased market share.

Sales of our classic ranges, including Botanic Garden and Pomona, still represent over 60% of total Group sales. These will now be supplemented by the recent introduction of a new tableware range called Soho, with totally new shape combinations, that meet the need of international cuisine. The diversification into glassware and giftware will continue, building on the successful establishment of these ranges with our retail customers.

The Board concluded that these changing market conditions provided an opportunity for Portmeirion to target a new market, and so during the last financial year, the Group developed and launched new ceramic ranges, known as PS Portmeirion Studio. These ranges were designed to be manufactured in the Far East, and they can be retailed at approximately two-thirds of Portmeirion's classic ranges. They do not compete with our established classics, and I believe they will provide genuinely incremental business. The first launch was in the USA at the turn of the year, and was immediately successful. As a result, sales in the USA for the first two months of

2004 are ahead of the previous year. Ranges of PS Portmeirion Studio are being introduced into the UK.

The plans and specification for the Group's new distribution centre in Stoke-on-Trent are now in the final stages of completion, and I expect construction to start later this year. This will enable the Group to provide its customers with a much-enhanced quality of service, and a more efficient use of resources. The Board is committed to investing in manufacturing processes which will continue to improve the Group's productivity and competitiveness.

Current trading and prospects

Although sales in the first two months of the year are slightly below last year, the current order book, and the new product introductions, particularly PS Portmeirion Studio, give us added confidence in 2004. It is also encouraging to see an improvement in our sales performance and prospects in North America, since this has such a significant impact on the total Company performance.

Against this, the new year provides some challenges. Following an actuarial valuation the Group has committed to additional contributions of £350,000 per annum to the Group's defined benefit pension scheme, which was closed in 1999. In addition, although the Group's policy is to hedge against exchange rate movements, the fall in the value of the US dollar is likely to cost the Group in the region of £450,000 in 2004, at current rates.

I would like to thank the management team and the whole workforce for their efforts in 2003, in meeting the challenges of a difficult year, and ensuring that we are well prepared for 2004 and beyond.

Arthur Ralley

Arthur Ralley
Chairman

2nd April 2004


strawberry fair

chief executive's review

Sales

At the beginning of 2003 the Group was suffering from a negative sales trend in the US, which started mid-2001. Although sales in the US were disappointing in 2003 (£9.3 million in 2003 compared with £11.5 million in 2002), a 19% reduction, we believe that a combination of successful new product launches and gradually improving consumer confidence will allow us to achieve an aggressive sales plan for 2004 with a significant increase.

Strong customer relationships have proven beneficial around the world but our UK market position was reinforced in 2003, which saw the change of ownership of one of our major customers and illuminated a potential trend of more to come. The small sales decline of 6% with an improved second half indicates a recovery in 2004.

European business is undergoing a new push spearheaded by the appointment of a new distributor, Messulam, in Italy. Our relationship with this prestigious trading company is a tremendous future asset for our business in this important European market.

The continued growth in the Far East has been important to the Group and an increased product selection and new management structure in Japan will provide us with continued opportunities for expansion in 2004. The ever-expanding customer base in Japan and increased consumer brand awareness in Korea are proving highly successful. We anticipate continued growth in this market for the foreseeable future.

Operations

Manufacturing margins and operational costs have been well managed during a difficult year. Our team's effort and lean manufacturing processes have enabled this result even though the volume of manufactured items in the UK decreased slightly during the year. In order to continue this commitment to maximizing production and logistical efficiencies, we are moving forward with our new distribution centre, based in Stoke-on-Trent. This commitment to the local economy is significant and demonstrates the Group's faith and belief in continuing to be UK and Staffordshire based. This facility will be designed to handle our increased volume in the coming years both in UK manufactured goods and sourced products such as our glass, candles and other home accessory ranges, including the P S Portmeirion Studio range.

New product and brand development

During 2003, as usual, the Group invested considerable energy and funds in diversifying our product assortments. The major change over previous years has been the aggressive recruitment of alternate specialist manufacturers around the world to add to our production base in the UK. This drive has spearheaded the launch of P S Portmeirion Studio, a sub-brand specifically developed to sell new lower priced products to new channels of distribution. This initiative has resulted in the beginning of a significant change in the market penetration of the USA and enhances our ability to achieve incremental volume growth in difficult conditions. It is anticipated that 20% of our volume in North America will be derived from this brand in 2004, with plans for an even larger portion in the years to come. Successful liaisons with local market designers have been a keystone of this plan.

The launch of the P S Portmeirion Studio brand has begun in the UK market and similar significant achievements are expected.

In summary, even with the difficulties experienced during the year, I believe 2003 was a creditable year for our Company and the maintenance of our final dividend of 9.95p and overall dividend of 13.25p shows the Group's confidence in the results and the future. The economic impediments suffered in 2003 have not yet dissipated but 2004 appears to offer significant opportunity for sales in most of our markets around the world through our commitment to new products, new brands and new market segments.

The efforts of the executive team are fully focused on taking advantage of these opportunities.

Lawrence Bryan.

Lawrence Bryan
Chief Executive

2nd April 2004

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 2003.

Principal activity
The Group markets tableware, cookware and giftware, glassware, 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 loss for the year deducted from reserves amounted to £75,000 (2002 - profit of £675,000).

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 2003 an interim dividend of 3.3p (2002 - 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 (2002 - 9.95p), making a total for the year of 13.25p (2002 - 13.25p) per share. The final dividend will be paid, subject to shareholders' approval, on 28th May 2004, to shareholders on the register at the close of business on 7th May 2004.

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 2003 5p Ordinary shares			As at 31st December 2002 5p Ordinary shares		
	Beneficial	**Non-beneficial**	**Options**	Beneficial	Non-beneficial	Options
L. F. Bryan	**150,000**	–	**230,000**	186,000	–	210,000
E. S. Cooper-Willis	**1,557,150**	**378,000**	–	1,717,150	378,000	–
J. Kong	**3,000**	–	–	3,000	–	–
A. M. Miles	–	–	**150,000**	–	–	138,000
B. W. J. Phillips	**10,455**	–	**150,000**	2,455	–	138,000
A. W. Ralley	**20,000**	–	**230,000**	20,000	–	210,000
R. J. Steele	**18,000**	–	–	18,000	–	–
B. S. Thomas	**5,000**	–	–	5,000	–	–

On 7th April 2003 B. W. J. Phillips exercised an option to acquire 8,000 Ordinary shares in the Company at an exercise price of 142.5p per share.

E.S. Cooper-Willis has made four sales of Ordinary shares in the Company as follows: 26th March 2003, 40,000 shares at 173p per share; 15th April 2003, 15,000 shares at 177.5p per share, 12th September 2003, 50,000 shares at 170p per share and 7th January 2004, 20,000 shares at 173p per share. S. C. Williams-Ellis, his wife, has made three sales of Ordinary shares in the Company as follows: 26th March 2003, 10,000 shares at 173p per share; 15th April 2003, 45,000 shares at 177.5p per share and 7th January 2004, 10,000 shares at 173p per share.

On 21st August 2003 L. F. Bryan sold 36,000 Ordinary shares in the Company at a price of 175p per share.

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:

A. W. Ralley

Arthur Ralley, aged 61, is the Chairman. His early career with the Littlewoods Organisation in stores and the mail-order divisions included several years as Buying & Merchandising Director. He joined Storehouse plc as Buying Director of Mothercare UK Ltd. and subsequently became a director of the international business. From 1992 to 1998 he was the Managing Director of Frame Express, after effecting a management buy-in. He became a Non-executive Director of Portmeirion Group PLC in 1996 and Executive Chairman in 2000. His contract expires on completion of one year's notice.

A.M. Miles

Alan Miles, aged 50, is the Sales & Marketing Director. His business experience covers a broad spectrum of activity including manufacturing, merchanting, retailing, sales and marketing. International experience has been gained not only through the management of worldwide networks of agents and distributors, but also through establishing subsidiaries and strategic alliances with trading partners in markets in both North America and the Far East. Since joining Portmeirion in 1996, he has revised the sales and marketing policies, revitalising the Portmeirion brand name. His contract expires on completion of one year's notice.

J. Kong

Janis Kong, aged 53, 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. 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, a Member of the Academy of Experts 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

Euan Cooper-Willis is a 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 the City 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.

J. Kong

See above for biographical information.

B.S. Thomas

Barbara Thomas is a lawyer, international banker and entrepreneur. She is 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.

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 2003, 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 maintained its status as an Investor in People during 2003. 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, including the consideration of any reasonable adjustments to the job or workplace. 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 2nd April 2004:

	Number of shares	Percentage
Fortress Finance Investment Inc	1,586,000	15.22%
Saffery Champness Trust Corporation	1,436,195	13.78%
Kamrouz Farhadi	1,265,250	12.14%
Rysaffe Trustee Company (C.I.) Limited	356,077	3.42%

Both Saffery Champness Trust Corporation and Rysaffe Trustee Company (C.I.) Limited are trustees of trusts for beneficiaries including members of the Cooper-Willis family.

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 28th May 2003 in respect of £173,287 of share capital. This authority expires on 27th May 2008. Approval is being sought in Resolution 6 at the Annual General Meeting in respect of a general authority to allot up to £173,687 (being less than a third of the present issued share capital), to expire on 16th May 2009.

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 £173,687 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 £26,053 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 2003 were £7.2million (2002 - £7.7million). 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 2004.

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.

Creditor payment policy
Payment terms are agreed with each of the Group's major suppliers. The Group 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 2003 was 36 (2002 - 36). The Company has no trade creditors.

Charitable and political contributions
Contributions to various charities in the form of goods during the year amounted to £11,370 (2002 - £10,597) 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
On 1st August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1st August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will 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 17th May 2004 at 12.00 noon. 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

2nd April 2004

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.

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. If the 2004 profit before taxation (PBT) exceeds an annual target, then a bonus pool is calculated. The bonus pool is shared between the four Executive Directors in proportion to their basic salary. Payment of one third of any bonus payable will be deferred for two years.

Annual performance related bonus (continued)
The calculation of the bonus pool is as follows:

Actual PBT before bonus as a % of target PBT	Amount to be added to Bonus Pool
Between 100.0% and 112.5%	20% of excess of PBT before bonus over target PBT
Between 112.5% and 125.0%	25% of excess of PBT before bonus over 112.5% of target PBT
Between 125.0% and 150.0%	30% of excess of PBT before bonus over 125.0% of target PBT
Between 150.0% and 175.0%	40% of excess of PBT before bonus over 150.0% of target PBT

If actual PBT before bonus is more than 175.0% of target PBT no more is added to the bonus pool in respect of the excess over 175.0% of target PBT. The maximum bonus payable is no more than 100% of basic salary.

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
The Company has three share option schemes: the Portmeirion 2002 Share Option Scheme, the 1997 Approved Company Share Option Plan and the 1997 Unapproved Share Option Scheme.

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.

Options granted to the Executive Directors under the Portmeirion 2002 Share Option Scheme on 18th March 2003 can normally only be exercised if the basic earnings per share of the Group for the year ending 31st December 2005 is more than 15% higher than the basic earnings per share of the Group for the year ended 31st December 2002. The reasons for selecting earnings per share as a measure of performance is that it directly reflects operational performance and also is a significant factor in determining the market's view of the Company's value.

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 these schemes is not dependent on performance criteria. It was not common practice to issue options excercisable subject to performance criteria when these options were granted.

The performance condition relating to the exercise of options granted after 31st December 2003 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 more than 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 certain Directors and employees. The scheme was introduced on 14th March 2001. The scheme entitles participants 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 three years following the financial year immediately before the financial year in which the incentives were granted, is more than 15 per cent. The reasons for selecting earnings per share as a measure of performance is that it directly reflects operational performance and also is a significant factor in determining the market's view of the Company's value.

No incentives under this scheme were granted to Directors during 2003.

Pensions
All the Executive Directors, except L. F. Bryan, are members of the Portmeirion Potteries Group Stakeholder Pension Plan, a defined contribution scheme. Annual performance related bonuses are not 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.

A.W. Ralley, A.M. Miles and J. Kong 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 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:

	2003 £	2002 £
Emoluments	610,252	648,014
Gains on exercise of share options	2,400	4,200
Money purchase pension contributions	56,349	37,297
	669,001	689,511

Directors' emoluments

	Salary & fees £	Benefits £	Bonus £	Total £	Pension Contri-butions £	2003 Total £	2002 Total £
Executive							
A.W. Ralley	93,713	-	-	93,713	14,137	107,850	108,745
L.F. Bryan	165,402	1,910	-	167,312	14,182	181,494	203,311
A.M. Miles	117,406	398	-	117,804	12,915	130,719	122,812
B.W.J. Phillips	117,406	498	-	117,904	15,115	133,019	140,175
Non-executive							
E.S. Cooper-Willis	58,519	-	-	58,519	-	58,519	58,538
J. Kong	17,500	-	-	17,500	-	17,500	16,540
R.J. Steele (1)	20,000	-	-	20,000	-	20,000	18,650
B.S. Thomas (2)	17,500	-	-	17,500	-	17,500	16,540
Total	607,446	2,806	-	610,252	56,349	666,601	685,311

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 and BT Consulting Inc. Limited in respect of her services.

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

Directors' pension entitlements

Two Directors are members of the Group's defined benefit pension scheme which closed on 5th April 1999. They had accrued entitlements under the scheme as follows:

	Accrued pension at 01.01.03 £	Increase in accrued pension in the year £	Accrued pension at 31.12.03 £
A. M. Miles	6,026	107	6,133
B. W .J. Phillips	18,762	368	19,130

The following table sets out the transfer values of the Directors' accrued benefits under the scheme calculated in a manner consistent with "Retirement Benefit Schemes - Transfer Values (GN11)" published by the Institute of Actuaries and the Faculty of Actuaries:

	Transfer value at 01.01.03 £	Contributions made by the Director £	Increase in transfer value in the year net of contributions £	Transfer value at 31.12.03 £
A. M. Miles	42,300	–	9,200	51,500
B. W .J. Phillips	167,300	–	36,700	204,000

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 2003 £	Gains on exercise 2002 £
B.W.J. Phillips	The 1997 Approved Company Share Option Plan	8,000	142.5p	172.5p	2,400	–
L.F. Bryan	The 1997 Unapproved Share Option Scheme	8,000	142.5p	195.0p	–	4,200

Directors' share options (continued)

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

Director	At 01.01.03	Granted	Exercised	Lapsed	At 31.12.03	Exercise Price	Date from which Exercisable	Expiry Date
	Number of Options							
The 1997 Unapproved Share Option Scheme								
L.F. Bryan	50,000	-	-	-	50,000	187.5p	09.04.2005	09.04.2006
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	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	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
L.F. Bryan	-	20,000	-	-	20,000	165.9p	18.03.2006	18.03.2007
A. M. Miles	100,000	-	-	-	100,000	195.0p	11.06.2005	11.06.2006
A. M. Miles	-	20,000	-	-	20,000	165.9p	18.03.2006	18.03.2007
B.W.J. Phillips	100,000	-	-	-	100,000	195.0p	11.06.2005	11.06.2006
B.W.J. Phillips	-	20,000	-	-	20,000	165.9p	18.03.2006	18.03.2007
A.W. Ralley	160,000	-	-	-	160,000	195.0p	11.06.2005	11.06.2006
A.W. Ralley	-	20,000	-	-	20,000	165.9p	18.03.2006	18.03.2007

(1) The performance criteria attaching to share options are detailed on page 15.

(2) The share price reached a high of 195.0p and a low of 162.5p during 2003. The average share price during 2003 was 180.4p.

Long-term incentive schemes

The Directors participating in the Phantom Share Option Scheme 2001 at the end of 2003 are shown below together with their interests.

	Nominal shareholding at 31st December 2002	Nominal shareholding at 31st December 2003	Interest at 31st December 2003 £
L.F. Bryan	50,000	50,000	5,400
A.M. Miles	30,000	30,000	3,240
B.W.J. Phillips	30,000	30,000	3,240
A.W. Ralley	50,000	50,000	5,400

(1) The share price at 31st December 2003 was £1.80.

(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

2nd April 2004

CORPORATE GOVERNANCE STATEMENT

In June 1998 the Combined Code relating to corporate governance ("the Code") was published and adopted as best practice by the London Stock Exchange. The 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 Code is applicable to companies.

The Higgs Report on the Role and Effectiveness of Non-Executive Directors and the Smith Report on the functioning of Audit Committees were issued in January 2003. The Code was amended to incorporate the recommendations in these reports and a revised Combined Code on Corporate Governance ("the Revised Code") was published in July 2003.

The Board believes that significant progress has already been made towards satisfying the requirements of the Revised Code. Although the Revised Code is not applicable to the Group in the year under review, the Group has commenced the process of further formalising and developing its procedures. The Board has implemented a review of its corporate governance policies and will continue this process. The Board expects to be able to report that during 2004, it has achieved compliance with the principles contained within the Revised Code.

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

APPLIANCE STATEMENT

The 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 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.

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)

Audit Committee ***2***
R. J. Steele (chairman)
J. Kong
B. S. Thomas

Nomination Committee ***2***
A. W. Ralley (chairman)
L.F. Bryan
E.S. Cooper-Willis
J. Kong
R. J. Steele
B. S. Thomas

Remuneration Committee ***2***
R. J. Steele (chairman)
J. Kong
B. S. Thomas

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 Code. R. J. Steele, J. Kong and B. S. Thomas have been members of all three Committees during their tenure as Non-executive Directors.

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 sufficient 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 2003.

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 2003 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 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 Act1985. 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 ouraudit 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 and auditing standards.

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 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 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 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 2003 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 LLP
Chartered Accountants and Registered Auditors
Birmingham

2nd April 2004

Neither an audit nor a review provides 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 information 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 information differs from legislation in other jurisdictions.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December 2003

	Notes	2003 £000's	2002 £000's
Turnover – continuing operations	1	**28,512**	30,712
Raw materials and operating costs	2	**(26,665)**	(28,174)
Operating profit – continuing operations	4	**1,847**	2,538
Share of profit of associated undertakings		**216**	230
Interest receivable and similar income	5	**174**	155
Impairment of investment in associated undertaking		**(234)**	–
Profit on ordinary activities before taxation		**2,003**	2,923
Taxation on profit on ordinary activities	6	**(697)**	(870)
Profit on ordinary activities after taxation being the profit for the financial year	7	**1,306**	2,053
Dividends	8	**(1,381)**	(1,378)
Retained (loss)/profit for the financial year	17	**(75)**	675
Earnings per share	9	**12.54p**	19.75p
Diluted earnings per share	9	**12.53p**	19.71p
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 2003

	Notes	2003 £000's	2003 £000's	2002 £000's	2002 £000's
Fixed assets					
Tangible assets	10		**7,872**		8,249
Investments	11		**1,460**		1,503
			9,332		9,752
Current assets					
Stocks	12	**6,775**		6,195	
Debtors	13	**4,868**		5,715	
Cash at bank and in hand		**7,228**		7,678	
		18,871		19,588	
Creditors: amounts falling due within one year	14	**(3,932)**		(4,732)	
Net current assets			**14,939**		14,856
Total assets less current liabilities			**24,271**		24,608
Provisions for liabilities and charges	15		**(307)**		(261)
Net assets			**23,964**		24,347
Capital and reserves					
Called up share capital	16		**521**		520
Share premium account	17		**4,580**		4,547
Profit and loss account	17		**18,863**		19,280
Equity shareholders' funds			**23,964**		24,347

These financial statements were approved by the Board of Directors and signed on 2nd April 2004 on its behalf by:

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

COMPANY BALANCE SHEET

As at 31st December 2003

	Notes	2003 £000's	2003 £000's	2002 £000's	2002 £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	
Creditors: amounts falling due within one year	14	**(4,262)**		(2,867)	
Net current assets			**6,649**		8,044
Net assets			**8,104**		9,499
Capital and reserves					
Called up share capital	16		**521**		520
Share premium account	17		**4,580**		4,547
Other reserves	17		**197**		197
Profit and loss account	17		**2,806**		4,235
Equity shareholders' funds			**8,104**		9,499

These financial statements were approved by the Board of Directors and signed on 2nd April 2004 on its behalf by:

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2003

	Notes	2003 £000's	2002 £000's
Cash inflow from operating activities	18	**1,852**	5,053
Returns on investments and servicing of finance	19	**173**	175
Taxation		**(431)**	(827)
Capital expenditure and financial investment	19	**(697)**	(563)
Equity dividends paid		**(1,381)**	(1,377)
Cash (outflow)/inflow before use of liquid resources and financing		**(484)**	2,461
Management of liquid resources		**420**	(1,824)
Financing	19	**34**	12
(Decrease)/increase in cash in the year		**(30)**	649

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

	2003 £000's	2002 £000's
(Decrease)/increase in cash in the year	**(30)**	649
Cash (inflow)/outflow from (decrease)/increase in liquid resources	**(420)**	1,824
Net funds at 1st January	**7,678**	5,205
Net funds at 31st December	**7,228**	7,678

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

For the year ended 31st December 2003

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2003	2002
	£000's	£000's
Profit for the financial year	**1,306**	2,053
Currency translation differences	**(342)**	(608)
Total recognised gains and losses for the financial year	**964**	1,445

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2003	2002
	£000's	£000's
Profit for the financial year	**1,306**	2,053
Dividends	**(1,381)**	(1,378)
Currency translation differences	**(342)**	(608)
Shares issued under employee share schemes	**34**	12
Net (reduction)/addition to shareholders' funds	**(383)**	79
Opening shareholders' funds	**24,347**	24,268
Closing shareholders' funds	**23,964**	24,347

(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 2003 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 2004 and the accounts of Portmeirion Canada Inc. which have a year end of 30th June 2003. The Group accounts include interim financial information to 31st December 2003 for Portmeirion Finance Limited and the results of Portmeirion Canada Inc. for the year to 31st December 2003.

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

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 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 a defined contribution pension scheme in the UK. Contributions to this scheme 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 expensed 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	2003 £000's	2002 £000's
United Kingdom	12,055	12,820
North America	9,920	12,108
European Union	1,873	1,792
Far East	4,099	3,448
Rest of the World	565	544
	28,512	30,712

Turnover by origin	2003 Total sales £000's	2003 Inter-segment sales £000's	2003 Sales to third parties £000's	2002 Total sales £000's	2002 Inter-segment sales £000's	2002 Sales to third parties £000's
United Kingdom	23,902	(5,122)	18,780	25,479	(6,375)	19,104
North America	9,229	–	9,229	11,207	–	11,207
Far East	503	–	503	401	–	401
	33,634	(5,122)	28,512	37,087	(6,375)	30,712

Operating profit by origin	2003 £000's	2002 £000's
United Kingdom	1,959	3,140
North America	235	(380)
Far East	(347)	(222)
Operating profit	1,847	2,538

Net assets by origin	2003 £000's	2002 £000's
United Kingdom	19,730	19,562
North America	3,486	3,958
Far East	323	359
Operating net assets	23,539	23,879
Unallocated net assets	425	468
Total net assets	23,964	24,347

Unallocated net assets consist of dividends payable of £1,035,000 (2002 – £1,035,000) and investments in associated undertakings of £1,460,000 (2002 – £1,503,000).
Details of investments in associated undertakings are provided in Note 11 on page 34.

2. Raw materials and operating costs

	2003 £000's	2002 £000's
Change in stocks of finished goods and work in progress	(416)	1,423
Raw materials and consumables	6,477	6,327
Other external charges	8,118	7,710
Staff costs (see Note 3)	11,536	11,483
Depreciation of tangible fixed assets	950	1,231
	26,665	28,174

3. Staff numbers and costs

	2003 Number	2002 Number
The average number of persons employed during the year, including Directors:		
Operatives	392	405
Staff	232	223
	624	628

Staff costs:	£000's	£000's
Wages and salaries	9,872	9,931
Social security costs	818	765
Defined contribution and money purchase pension scheme costs	846	787
	11,536	11,483

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

		2003 £000's	2002 £000's
Operating profit is stated after charging:			
Research and development		335	223
Auditors' remuneration	– audit	43	42
	– other services	19	32
Operating lease rentals	– property	377	368

The audit fee for the Company was £2,000 (2002 – £2,000).

5. Interest receivable and similar income

	2003 £000's	2002 £000's
Bank deposits	174	155

6. Taxation on profit on ordinary activities

	2003 £000's	2002 £000's
United Kingdom Corporation tax at 30% (2002 – 30%)	**645**	840
Adjustment to corporation tax in respect of prior years	**2**	(29)
Overseas taxation	**33**	(95)
Adjustment to overseas taxation in respect of prior years	**(106)**	10
Associated undertakings	**77**	76
Current taxation	**651**	802
Deferred taxation:		
Deferred taxation origination and reversal of timing differences	**65**	68
Adjustment to deferred taxation in respect of prior years	**(19)**	–
	697	870

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% (2002 - 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:

	2003 £000's	2002 £000's
Profit on ordinary activities before taxation	**2,003**	2,923
Tax on profit on ordinary activities at standard rate of 30%	**601**	877
Factors affecting charge for the period:		
Accelerated capital allowances	**16**	78
Other timing differences	**(81)**	(153)
Expenses not deductible for tax purposes	**108**	43
Unrelieved losses in foreign subsidiaries	**97**	58
Foreign tax charged at higher rates than UK standard rate	**14**	(6)
Exchange adjustments	**–**	(76)
Adjustments to tax charge in respect of prior periods	**(104)**	(19)
Total actual amount of tax on profit on ordinary activities	**651**	802

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 £1,306,000 (2002 - £2,053,000) includes a loss of £48,000 (2002 - £50,000) which is dealt with in the financial statements of the Company.

8. Dividends

	2003 £000's	2002 £000's
Interim 3.3p per share paid (2002 – 3.3p)	344	343
Final 9.95p per share proposed (2002 – 9.95p)	1,037	1,035
Total 13.25p per share (2002 – 13.25p)	1,381	1,378

9. Earnings per share

Basic

The basic earnings per share is calculated by dividing the profit after taxation of £1,306,000 (2002 – £2,053,000) by the weighted average number of Ordinary shares in issue during the year of 10,414,918 (2002 – 10,394,731).

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:

	2003 Earnings £	2003 Weighted No. of Shares	2003 Earnings per Share (Pence)	2002 Earnings £	2002 Weighted No. of Shares	2002 Earnings per Share (Pence)
Basic earnings per share	1,306,000	10,414,918	12.54	2,053,000	10,394,731	19.75
Effect of dilutive securities:						
employee share options	–	6,000	–	–	23,092	–
Diluted earnings per share	1,306,000	10,420,918	12.53	2,053,000	10,417,823	19.71

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 2003	6,332	607	14,244	21,183
Additions	1	–	800	801
Disposals	(39)	–	(374)	(413)
Exchange adjustments	(89)	(14)	(42)	(145)
At 31st December 2003	**6,205**	**593**	**14,628**	**21,426**
Depreciation				
At 1st January 2003	1,459	244	11,231	12,934
Charge for year	96	63	791	950
On disposals	(7)	–	(267)	(274)
Exchange adjustments	(18)	(8)	(30)	(56)
At 31st December 2003	**1,530**	**299**	**11,725**	**13,554**
Net book value				
At 31st December 2003	**4,675**	**294**	**2,903**	**7,872**
At 31st December 2002	4,873	363	3,013	8,249

11. Investments

	2003 £000's	2002 £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	**1,041**	982
Discount on acquisition	**(13)**	(13)
Impairment of investment in Furlong Mills Limited	**(234)**	–
	794	969
Portmeirion Canada Inc.		
100 common shares representing 50% of the issued share capital		
Share of net assets	**666**	534
	1,460	1,503

The decrease of £43,000 in the amount disclosed under investments represents the Group's share of profits in associated undertakings less the impairment of £234,000.

	2003 £000's	2002 £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 2003 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 2003 £000's	Group 2002 £000's
Raw materials and other consumables	1,091	927
Work in progress	1,214	1,209
Finished goods	4,470	4,059
	6,775	6,195

13. Debtors

	Group 2003 £000's	Group 2002 £000's
Trade debtors	4,030	4,761
Amounts owed by associated undertakings	176	80
Other debtors	63	309
Prepayments and accrued income	599	565
	4,868	5,715

14. Creditors: amounts falling due within one year

	Group 2003 £000's	Group 2002 £000's	Company 2003 £000's	Company 2002 £000's
Trade creditors	1,988	2,067	–	–
Amounts owed to subsidiary undertakings	–	–	3,186	1,790
Amounts owed to associated undertakings	20	12	–	–
Corporation tax	235	329	–	–
Other taxation and social security	486	586	6	6
Dividends payable	1,035	1,035	1,035	1,035
Other creditors	168	703	35	36
	3,932	4,732	4,262	2,867

15. Provisions for liabilities and charges

	£000's
Deferred taxation:	
Balance at 1st January 2003	261
Charge for year ended 31st December 2003	46
Balance at 31st December 2003	**307**

	2003 Provided in the accounts £000's	2003 Full potential £000's	2002 Provided in the accounts £000's	2002 Full potential £000's
Deferred taxation:				
Accelerated capital allowances	544	544	571	571
Short term timing differences	(237)	(237)	(310)	(310)
Deferred tax liability	307	307	261	261

No provision is required for deferred taxation in the accounts of the Company (2002- £nil).
The above figures exclude taxation payable in the event of profits of overseas subsidiary undertakings being distributed.

16. Share capital

	2003 Number 000's	2003 £000's	2002 Number 000's	2002 £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	**10,421**	**521**	10,397	520

The market price of the Company's shares at 31st December 2003 was 180.0p per share. During the year the price ranged between 162.5p and 195.0p per share.

24,000 Ordinary shares of 5p each were allotted to three employees on 7th April 2003 for a total cash consideration of £34,200, being £1.425 per share. 16,000 shares were allotted under the Group's 1997 Approved Company Share Option Plan of which 8,000 were allotted to B.W.J. Phillips. 8,000 shares were allotted 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 2003 were as follows:

	Number of shares	Exercise price per share	Dates on which exercisable Earliest	Latest
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
The Portmeirion 2002 Share Option Scheme	100,000	165.9p	18.03.2006	18.03.2007

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 2003	4,547	19,280
Retained loss for the year	–	(75)
Exchange adjustment	–	(342)
Premium on shares issued under option scheme	33	–
As at 31st December 2003	**4,580**	**18,863**

The cumulative amount of goodwill written off at 31st December 2003 was £515,000 (2002 - £515,000).
The balance carried forward on the profit and loss account of £18,863,000 (2002 - £19,280,000) includes the Group's share of associated undertakings' post acquisition reserves of £1,619,000 (2002 - £1,428,000).

	Other reserves £000's	Share premium account £000's	Profit and loss account £000's
Company			
As at 1st January 2003	197	4,547	4,235
Retained loss for the year	–	–	(1,429)
Premium on shares issued under option scheme	–	33	–
As at 31st December 2003	**197**	**4,580**	**2,806**

18. Reconciliation of operating profit to operating cash flows

	2003 £000's	2002 £000's
Operating profit	1,847	2,538
Depreciation	950	1,231
Exchange loss	(305)	(478)
Loss on sale of tangible fixed assets	35	9
(Increase)/decrease in stocks	(580)	1,396
Decrease in debtors	611	461
Decrease in creditors	(706)	(104)
Net cash inflow from operating activities	1,852	5,053

All of the above relate to continuing operations.

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

	2003 £000's		2002 £000's	
Returns on investments and servicing of finance				
Interest received	173		175	
Net cash inflow from returns on investments and servicing of finance		173		175
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(801)		(611)	
Sale of tangible fixed assets	104		48	
Net cash outflow for capital expenditure and financial investments		(697)		(563)
Financing				
Issue of Ordinary shares under share option schemes	34		12	
Net cash inflow from financing		34		12

20. Analysis of net funds

	At 1st January 2003 £000's	Cash flow £000's	At 31st December 2003 £000's
Cash in hand, at bank	1,194	(30)	1,164
Short term money market deposits	6,484	(420)	6,064
Total	7,678	(450)	7,228

21. Commitments

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

	2003 Land and buildings £000's	2002 Land and buildings £000's
On leases expiring:		
Within one year	**–**	–
In two to five years	**304**	238
After five years	**195**	162

Capital commitments are as follows:	**2003 £000's**	2002 £000's
Contracted for	**–**	–

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 2003 the gross borrowings of Portmeirion Potteries Limited and Portmeirion Finance Limited amounted to £nil (2002 – £nil).

23. Related party transactions

The transactions during the year with associated undertakings were:

	Purchases 2003 £000's	Purchases 2002 £000's	**Sales 2003 £000's**	Sales 2002 £000's
Portmeirion Canada Inc.	**–**	–	**579**	582
Furlong Mills Ltd.	**464**	451	**–**	–

The outstanding balances at 31st December 2003, with associated undertakings were:

	Debtor 2003 £000's	Debtor 2002 £000's	**Creditor 2003 £000's**	Creditor 2002 £000's
Portmeirion Canada Inc.	**176**	80	**–**	–
Furlong Mills Ltd.	**–**	–	**20**	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:

	2003 £	2002 £
B. W. J. Phillips	**453**	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.

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 triennial valuation was at 6th April 2002. The main actuarial assumptions used in the valuation were:

* Price inflation of 2.5% per annum
* Pre-retirement valuation rate of interest of 6.75% 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, 2.5% per annum on pensions earned after 6th April 1997 and 3.0% on GMP earned after 6th April 1988.

At the date of the last valuation the market value of the scheme assets was £13,172,000 and the scheme had a deficiency of £2,622,000.

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 2003, 31st December 2002 and 31st December 2001 by qualified actuaries. The major assumptions used by the actuaries were:

	2003	2002	2001
Rate of increase in salaries	**not applicable**	not applicable	not applicable
Rate of increase in pensions in payment:			
Post 06.04.88 GMP	**3.00%**	3.00%	3.00%
Pre 06.04.97 excess over GMP	**5.00%**	5.00%	5.00%
Post 06.04.97 pension	**2.50%**	2.50%	2.50%
Rate of revaluation of pensions in deferment	**2.50%**	2.50%	2.50%
Rate used to discount scheme liabilities	**5.75%**	5.75%	5.90%
Inflation assumption	**2.50%**	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:

	2003 Expected rate of return	**2003 Fair value £000's**	2002 Expected rate of return	2002 Fair value £000's	2001 Expected rate of return	2001 Fair value £000's
Equities	**7.0%**	**8,488**	6.5%	4,851	6.5%	5,067
Bonds	**5.5%**	**4,568**	4.5%	7,202	4.5%	7,659
Insured annuities	**5.8%**	**256**	5.0%	230	5.0%	230
Total fair value of assets		**13,312**		12,283		12,956
Present value of scheme liabilities		**(15,435)**		(13,923)		(12,124)
(Deficit)/surplus in the scheme		**(2,123)**		(1,640)		832
Recoverable surplus or deficit in the scheme		**(2,123)**		(1,640)		–
Related deferred tax		**–**		–		–
Net pension liability		**(2,123)**		(1,640)		–

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 2003 these amounts are:

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

	2003 £000's	2002 £000's
Current service cost	**–**	–
Past service cost	**–**	–
	–	–

24. Pensions (continued)

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

	2003 £000's	2002 £000's
Expected return on pension scheme assets	651	685
Interest on pension scheme liabilities	(801)	(715)
	(150)	(30)

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

	Note	2003 %	2003 £000's	2002 %	2002 £000's
Actuarial return less expected return on pension scheme assets	(i)	4.3	572	(9.5)	(1,169)
Experience gains and losses arising on the scheme liabilities	(ii)	2.6	(403)	5.1	(710)
Changes in assumptions underlying the present value of the scheme liabilities		–	(560)	–	(667)
	(ii)	2.5	(391)	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

	2003 £000's	2002 £000's
(Deficit)/surplus as at 1st January	(1,640)	832
Movement in year:		
Employer contributions	58	104
Other finance income	(150)	(30)
Actuarial loss	(391)	(2,546)
Shortfall as at 31st December	(2,123)	(1,640)

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31st December 2003 would be as follows:

Net assets	2003 £000's	2002 £000's
Net assets, excluding pension liability	23,964	24,347
Pension liability under FRS 17	(2,123)	(1,640)
Net assets, including pension liability	21,841	22,707

Reserves	2003 £000's	2002 £000's
Profit and loss reserve, excluding pension liability	18,863	19,280
Pension liability under FRS 17	(2,123)	(1,640)
Profit and loss reserve, including pension liability	16,740	17,640

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. This scheme was closed on 31st October 2002 and was replaced by a group stakeholder pension plan.

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 £64,000 (2002 - £87,000) at 31st December 2003.

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:

	2003 £000's	2003 £000's	2002 £000's	2002 £000's
Short term money market deposits:				
Sterling	**4,900**		4,500	
US Dollar	**1,164**		1,488	
Euro	**–**		496	
		6,064		6,484
Cash at bank and in hand:				
Sterling	**628**		548	
US Dollar	**382**		355	
Euro	**69**		153	
Japanese Yen	**23**		38	
Canadian Dollar	**62**		100	
		1,164		1,194
		7,228		7,678

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 2003.

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:

	2003 Net carrying amount £000's	2003 Estimated fair value £000's	2002 Net carrying amount £000's	2002 Estimated fair value £000's
Cash at bank and in hand and short term money market deposits	**7,228**	**7,228**	7,678	7,678
Derivative financial instruments:				
Foreign exchange contracts	**–**	**148**	–	190

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 £148,000 and these are expected to be realised in the next financial year (2002 – £190,000 in the next financial year).

CONSOLIDATED PROFIT AND LOSS ACCOUNT INFORMATION

Years ended 31st December

	1999 £000's	As restated 2000 £000's	2001 £000's	2002 £000's	**2003 £000's**
Turnover	27,469	30,727	29,626	30,712	**28,512**
Profit on ordinary activities before taxation	2,823	3,351	1,623	2,923	**2,003**
Taxation	(901)	(943)	(623)	(870)	**(697)**
Profit on ordinary activities after taxation	1,922	2,408	1,000	2,053	**1,306**
Dividends	(1,377)	(1,377)	(1,377)	(1,378)	**(1,381)**
Retained (loss)/profit	545	1,031	(377)	675	**(75)**
Earnings per share	18.50p	23.18p	9.63p	19.75p	**12.54p**

CONSOLIDATED BALANCE SHEET INFORMATION

At 31st December

	1999 £000's	As restated 2000 £000's	2001 £000's	2002 £000's	**2003 £000's**
Capital employed					
Fixed assets	10,529	10,381	10,405	9,752	**9,332**
Net current assets	13,583	14,298	14,055	14,856	**14,939**
Provisions for liabilities and charges	–	(203)	(192)	(261)	**(307)**
	24,112	24,476	24,268	24,347	**23,964**
Financed by					
Called up share capital	519	519	519	520	**521**
Share premium account and reserves	23,593	23,957	23,749	23,827	**23,443**
	24,112	24,476	24,268	24,347	**23,964**

1999 has not been restated to reflect the adoption of FRS19 “Deferred Tax”.

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financial calendar

annual general meeting	may
interim report	august
dividends	
interim announced	august
paid	october
final announced	march
paid	may