PORTMEIRION

portmeirion group plc

report & accounts 2001

dusk

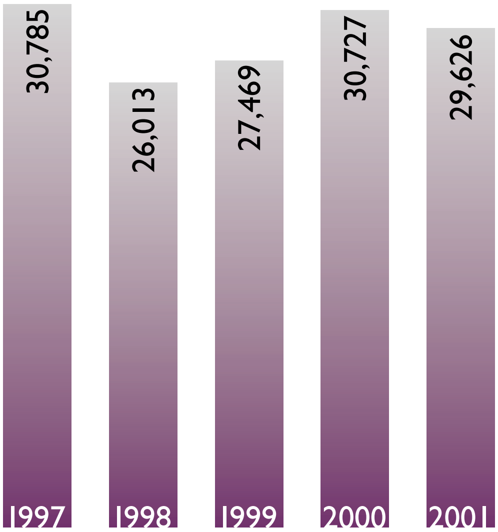
CONTENTS

Registered Number 124842

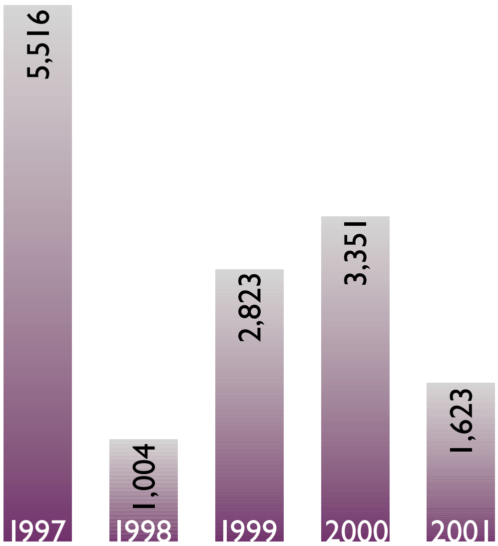
FINANCIAL HIGHLIGHTS

	2001 £000's	2000 £000's	Decrease
Turnover	**29,626**	30,727	3.6%
Pre-tax profit	**1,623**	3,351	51.6%
Earnings per share – Basic	**9.63p**	23.18p*	58.5%
Dividends per share	**13.25p**	13.25p	–

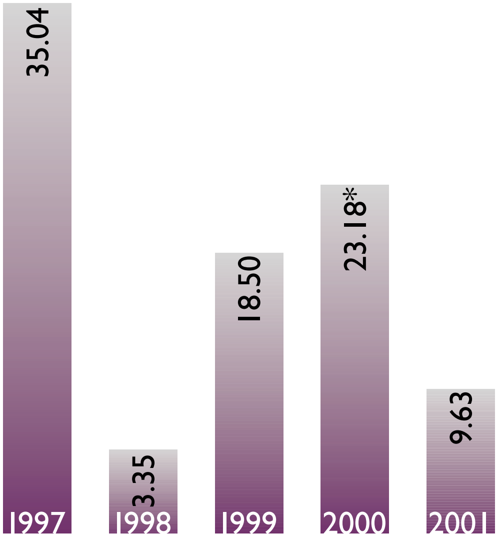
TURNOVER (£'000)



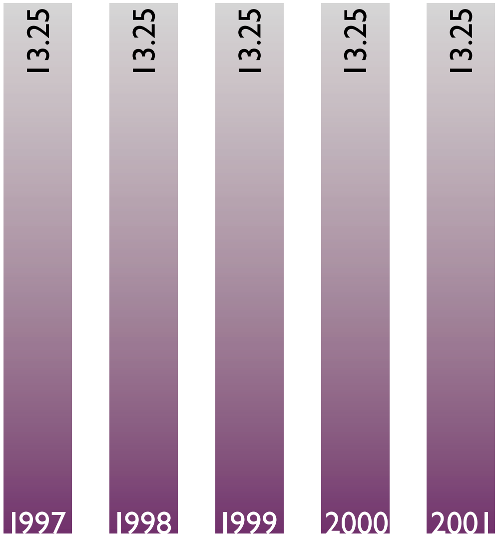
PRE-TAX PROFIT (£'000)



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

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Stoke-on-Trent
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Tel: (01782) 744721
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Auditors

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Birmingham
B3 2BN

Bankers

HSBC Bank plc
Crown Bank
Hanley
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Staffordshire
ST1 1DA

Stockbrokers

KBC Peel Hunt Ltd
62 Threadneedle Street
London
EC2R 8HP

Registrars

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

Solicitors

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3 Colmore Circus
Birmingham
B4 6BH

Kent Jones and Done
Churchill House
Regent Road
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Staffordshire
ST1 3RQ

CHAIRMAN'S STATEMENT

botanic garden

pomona

the holly & the ivy

amabel

totem

Sales for the year were £29.626m., 4% below the previous year.

The profit before tax was £1.623m., which compares with £3.351m. in the previous year, a decline of 52%.

Basic earnings per share were 9.63p, which compares with 23.18p (restated) in the previous year.

The Board is recommending a final dividend of 9.95p bringing the total to 13.25p for the year. This is unchanged from 2000.

The year has been badly affected by two external influences. In the UK, sales were adversely affected in the first half by a reduction in the number of overseas visitors due to the foot and mouth epidemic. Sales in the USA, which previously accounted for 44% of total Group sales, were adversely affected by the major destocking programme undertaken by our major department store customers. As a result Group sales at the half-year were 9% down on the previous year.

After a slow first half, we were then badly affected by the events of 11th September, as were many companies in the industry. Despite this, there was a steady and sustained recovery in the second half, led by strong sales growth in the UK and the Far East. Overall second half sales were 1% above the same period last year so that the sales shortfall for the year was reduced to 4% compared to the previous year.

Annual sales in the USA fell by 12%, but this was offset by a commendable increase in the UK of 5%. Our strategy of developing the Far East market is also now showing rewards, with sales 49% above the previous year. Clearly we have the opportunity for further substantial growth in this area and our long-term commitment to achieve this is demonstrated by the establishment of our subsidiary, Portmeirion Japan.

Complementing the second half sales improvement, the manufacturing gross profit margin for the second half was an impressive 2 percentage points better than that for the first half, and I believe this improvement will be maintained.

These underlying improvements have continued into the New Year and, given the strength of our balance sheet, the Board feels justified in maintaining the dividend.

The events of last year have not in any way diminished our commitment to the Group's product strategy. The diversification into associated home-ware and gift products under the Portmeirion Brand, together with new and innovative ceramic ranges, continues. We introduced the revolutionary Starfire range into our gift offer in the autumn, and new ranges will be introduced during this year to sustain our growing reputation for creative design. We are now firmly established in the glassware, home textiles and candle markets, with combined sales of £3.1m. The Board will consider acquisitions as a way of increasing market share in any of these markets if suitable opportunities can be identified.

Emphasis on excellent design and quality has enabled the Group to continue to produce its ceramic ranges in Stoke-on-Trent. The constant drive for improved efficiency and productivity is never ending, and will be backed by capital expenditure focused on our ceramic manufacturing plants.

The whole management team and workforce, now under the leadership of Lawrence Bryan, Chief Executive Officer, have responded magnificently to the challenges that were imposed upon the Group in 2001. The team in our New York office showed remarkable fortitude in getting back to business during September. I would like to thank everyone for their contribution and I have every confidence in their ability to continue the Group's successful development.

Given the economic uncertainties with which we are faced, I believe it is appropriate to be cautious about the prospects for 2002. However, we have started the year with sales continuing to improve, and a cost base that takes account of those economic uncertainties.

Given a steady improvement in the USA market, now that the major retailers have largely finished de-stocking, I expect a reasonable recovery in Group prospects this year.

Arthur Ralley

Arthur Ralley
Chairman
15th March 2002

dusk

dawn

seasons

starfire

beachcomber

2001 was an extremely difficult year for our industry around the world. The influences of exceptional events, both in the UK and USA, were dramatic and, as detailed by the Chairman, unhelpful in general. Sales in the first half of the year were behind 2000 figures by 9% but ended up at year-end down less than 4%. Profits for the first half of the year were £262,000, down 76% but the second half saw a major improvement with a profit of £1.361 million, bringing the total for the year to £1.623 million before tax.

The diversification of our core business into materials other than ceramics, tight cost controls, and attention to operating margins, have enabled us to remain profitable overall. These factors will continue to benefit the Group in future trading periods.

Export market sales were also diversified compared to past years with sustained growth in the Far East and Pacific Rim. We anticipate further strong growth in the future as the trend towards casual dining in Japan grows to suit our main product category.

Operations

Significant improvements and advances in our logistics and production methods have been effected in 2001. Cost targets and margin goals are being met consistently providing significant increases in profitability for the manufacturing process within the Group. Capital investment for the year was £1 million and is planned at £1.9 million for 2002. Our recognition that the skills available in the Stoke-on-Trent area combined with talented management of all available resources, makes ceramic manufacturing investment in Stoke a natural and profitable part of our business plan.

We have received accolades from our customers around the world for our continued improvement and leading position as a servicing partner in complete and on-time deliveries of product. The combination of this priority with a new range management plan and a new product launch programme, which uses research to present new products to the market in a more efficient manner, has been effective. The continued focus on design and innovation has therefore had a more immediate and positive effect on both sales and profits and will continue to do so. As a result 2001 new products accounted for almost 9% of our sales. Our new Starfire range has given us an important entry into the Home Decorative Accessories market.

I would like to congratulate all employees on the resilience and determination demonstrated in the year. Our improvement in the second half was laudable and continues to give us positive momentum for 2002.

Lawrence Bryan
Group Chief Executive
15th March 2002


amabel

the holly
& the ivy

REPORT OF THE DIRECTORS

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 2001.

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

Business review
A full explanation of the Group's activities during the year and its planned future developments is given in the Chairman's Statement and Chief Executive's Review on pages 4 and 6.

Results
The results for the year are set out on page 19. The loss for the year deducted from reserves amounted to £377,000 (2000 – profit of £1,031,000 as restated).

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 2001 an interim dividend of 3.3p (2000 – 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 (2000 – 9.95p), making a total for the year of 13.25p (2000 – 13.25p) per share. The final dividend will be paid, subject to shareholders' approval, on 27th May 2002, to shareholders on the register at the close of business on 3rd May 2002.

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 2001 5p Ordinary shares			As at 31st December 2000 5p Ordinary shares		
	Beneficial	**Non-beneficial**	**Options**	Beneficial	Non-beneficial	Options
L.F. Bryan	**168,000**	–	**8,000**	173,000	–	8,000
E.S. Cooper-Willis	**1,746,200**	**378,000**	–	1,746,200	378,000	–
J. Kong	**3,000**	–	–	–	–	–
A.M. Miles	–	–	**19,000**	–	–	29,500
B.W.J. Phillips	**2,455**	–	**20,000**	2,455	–	21,050
A.W. Ralley	**20,000**	–	–	20,000	–	–
R.J. Steele	**10,000**	–	–	10,000	–	–
B.S. Thomas	–	–	–	–	–	–

K. Farhadi was a Director during the year until his resignation on 15th August 2001.

L. F. Bryan sold 5,000 Ordinary shares in the Company on 21st January 2001 at 200p per share, and a further 5,000 on 5th June 2001 at 200p per share. On 23rd August 2001 he purchased 5,000 shares at 140p per share.

On 16th March 2001, 180,000 Ordinary shares in the Company were transferred to E. S. Cooper-Willis by S. C. Williams-Ellis, his wife. His beneficial interest therefore remains unchanged.

On 27th April 2001, J. Kong purchased 3,000 Ordinary shares in the Company at a price of 210p per share.

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

Details of changes in share options can be found in Note 16 on pages 32 and 33.

Details of transactions with Directors and other related parties are to be found in Note 23 on page 35.

Directors proposed for re-election

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

B. W. J. Phillips

Brett Phillips, aged 44, is Group Finance Director. He joined the Group in 1988 and became a Director in September, 1988. He qualified as a Chartered Accountant in 1982. He is responsible for all aspects of financial control, information systems and management reporting; human resources; intellectual property; legal and company secretarial matters. He represents the Group on all subsidiary company boards, and on the board of Furlong Mills Limited. His contract expires on completion of one year's notice.

R. J. Steele

Dick Steele, aged 46, is a Non-executive Director. He was appointed to the Board in May 1999 and is the Senior Non-executive Director. He is a Chartered Accountant and a Member of the Institute of Taxation. He has spent ten years as Group Finance Director of listed companies, latterly with Storehouse and before that Lloyds Chemists. He is Non-executive Chairman of HobbyCraft, Colab, Buckley Jewellery, Snap Digital Imaging, Factory Shop and De Bradelei. His contract expires on completion of one year's notice.

Directors' contracts

A contract, which will expire on completion of one year's notice, is currently under discussion with L. F. Bryan. All other Directors have contracts which expire on the completion of one year's notice.

Non-executive Directors

R.J. Steele - Senior Non-executive Director

See above for biographical information.

J. Kong

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

B.S. Thomas

Barbara Thomas is a lawyer, international banker and entrepreneur.

She is Executive Chairman of Private Equity Investor plc, Non-executive Chairman of Axon Group plc and Deputy Chairman of Friends' Provident plc as well as being a director of several other public and private companies. She is a former Commissioner of the United States Securities and Exchange Commission.

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 2001, 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 has achieved recognition as an Investor in People during 2001. The Directors are committed to the continuing development of the Group's employees via the principles of Investors in People.

Employment of disabled persons

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

Substantial shareholdings

In addition to the Directors' interests notified above, the Company had been notified of the following beneficial interests in 3% or more of its issued share capital as at 15th March 2002:

	Number of shares	Percentage
Fortress Finance Investment Inc	1,095,000	10.54%
Saffery Champness Trust Corporation	414,753	3.99%

Saffery Champness Trust Corporation is trustee 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 25th May 2001 in respect of £173,153 of share capital. This authority expires on 24th May 2006. Approval is being sought in Resolution 5 at the Annual General Meeting in respect of a general authority to allot up to £173,153 (being less than a third of the present issued share capital), to expire on 20th May 2007.

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 6 at the Annual General Meeting to renew authorities in respect of the allotment pursuant to a rights issue of all the £173,153 of share capital whose allotment is authorised, the allotment of Ordinary shares pursuant to the terms of the employee share schemes and of up to £25,973 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 7 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 2001 were £5.2million (2000 - £7.1million). 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 60% of the expected US dollar receipts for 2002.

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 37 provides further disclosure of the Group's financial instruments.

The Euro

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

Creditor payment policy
Payment terms are agreed with each of the Company's major suppliers. The Company abides by these terms provided that the supplier also complies with the agreed terms and conditions. The policy for other suppliers is generally to make payment by the end of the month following receipt of a valid invoice. All payment terms are stated at the time orders are placed. The number of days purchases represented by trade creditors at 31st December 2001 was 38 (2000 - 37). The Company has no trade creditors.

Charitable and political contributions
Contributions to various charities in the form of goods during the year amounted to £9,288 (2000 - £10,460) at cost. There were no political contributions during the year.

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

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

Annual General Meeting
The Annual General Meeting will be held at the registered office of the Company at London Road, Stoke-on-Trent, on 21st May 2002 at 2.30 p.m. The ordinary and special resolutions to be proposed at that meeting are detailed in the separate Notice of Annual General Meeting.

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

B. W. J. Phillips
Secretary

15th March 2002

General
The remuneration and emoluments of Executive Directors are determined by the Remuneration Committee. The remuneration of Non-executive Directors is determined by the Executive Directors. The Non-executive Directors do not participate in the bonus or share options schemes. Details of Directors' contracts are given in the Report of the Directors.

The remuneration package and contract terms of the Executive Directors are structured on a basis which is sufficient both to recruit and also to retain those of appropriate calibre. Attention is paid to payments made by companies broadly comparable with Portmeirion; changes are determined after a review of individual performance.

The following table sets out the various elements of Directors' remuneration during the year.

	Salary & fees £	Benefits £	Bonus £	Pension Contri-butions £	2001 Total £	2000 Total £
Executive						
A. W. Ralley	89,250	–	–	–	89,250	89,250
L. F. Bryan	135,068	1,061	6,605	12,519	155,253	160,059
A. M. Miles	94,112	332	–	8,839	103,283	94,145
B. W. J. Phillips	89,635	7,560	–	10,347	107,542	102,946
K. Farhadi (1)	301,732	415	–	15,004	317,151	157,992
Non-executive						
E. S. Cooper-Willis (2)	48,697	421	–	–	49,118	67,574
J. Kong (3)	15,750	–	–	–	15,750	8,750
R. J. Steele (4)	17,750	–	–	–	17,750	15,000
B. S. Thomas (5)	15,750	–	–	–	15,750	12,500
Total	807,744	9,789	6,605	46,709	870,847	708,216

Notes

(1) The 2001 figures for K. Farhadi relate to the period up to his resignation on 15th August 2001 and include total compensation in the amount of £192,966.

(2) E.S. Cooper-Willis was an Executive Director until his retirement as Chairman on 26th May 2000.

(3) The 2000 figure for J. Kong relates to the period from her appointment on 26th May 2000.

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

(5) The remuneration for B. S. Thomas was made to BT Consulting in respect of her services. The 2000 figure relates to the period from her appointment on 1st March 2000.

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

No share options were exercised by any of the Directors during the years ended 31st December 2000 and 31st December 2001.

A. W. Ralley is the Chairman and L. F. Bryan is the highest paid Director excluding the resigned director.

Annual bonus scheme
The Company operates an annual bonus scheme for Executive Directors. Annual bonuses are payable if target profits are achieved. The targets and bonus payable are reviewed annually by the Remuneration Committee. There was no bonus payable under the scheme in respect of 2001.

Share option schemes
The Company operates two discretionary share option schemes for Executive Directors and all employees. Options issued under these schemes may be exercised between three and four years after the date of grant. Details of existing options can be found in Note 16 to the financial statements on pages 32 and 33 and in the Report of the Directors.

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 Directors participating in the scheme at the end of the year are shown below together with their interests:

	Nominal shareholding at 14th March 2001	Nominal shareholding at 31st December 2001	Interest at 31st December 2001 £
L. F. Bryan (1)	30,000	50,000	1,650
K. Farhadi (2)	50,000	–	–
A. M. Miles	30,000	30,000	990
B. W. J. Phillips	30,000	30,000	990
A. W. Ralley	50,000	50,000	1,650

(1) L. F. Bryan's nominal shareholding was increased to 50,000 following his appointment as Chief Executive with effect from 15th August 2001.
(2) K. Farhadi resigned as a Director on 15th August 2001 and accordingly had no interest in the scheme at the year end.
(3) The share price at 31st December 2001 was £1.725.

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

On 6th April 1999 a new defined contribution pension scheme commenced and K. Farhadi, A. M. Miles and B. W. J. Phillips became members. The level of Company contribution is based upon the age of each member and their own level of contribution. Married members of the scheme have life assurance cover of five times their earnings in the previous tax year, used to provide both lump sum cover and a spouse's pension on death before retirement. Single members have life assurance cover of four times their earnings in the previous tax year.

L. F. Bryan is a member of the US money purchase pension scheme. Company contributions are made on a discretionary basis.

A. W. Ralley and the Non-executive Directors are not members of the Group's pension schemes.

CORPORATE GOVERNANCE STATEMENT

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

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

APPLIANCE STATEMENT

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

Directors

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

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

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

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

Board of Directors ***6***
A. W. Ralley (Chairman)
L. F. Bryan (Chief Executive)
E. S. Cooper-Willis (Non-executive)
J. Kong (Non-executive)
A. M. Miles
B. W. J. Phillips
R. J. Steele (Senior Non-executive)
B. S. Thomas (Non-executive)

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

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

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

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

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

Further details of Directors' Remuneration can be found in the Remuneration Report on pages 13 and 14.

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

Accountability and Audit
Financial Reporting
The Chief Executive's Review on page 6 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 9 to 12, 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 17 and 18.

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 2001.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 2001 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in consolidated shareholders' funds and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement on page 17 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all 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 and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Colmore Gate
2 Colmore Row
Birmingham B3 2BN **15th March 2002**

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

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December 2001

	Notes	2001 £000's	As restated 2000 £000's
Turnover – continuing operations	1	**29,626**	30,727
Raw materials and operating costs	2	**(28,492)**	(27,958)
Operating profit – continuing operations	4	**1,134**	2,769
Share of profit of associated undertakings		**245**	254
Interest receivable and similar income	5	**244**	328
Profit on ordinary activities before taxation		**1,623**	3,351
Taxation on profit on ordinary activities	6	**(623)**	(943)
Profit on ordinary activities after taxation being the profit for the financial year	7	**1,000**	2,408
Dividends	8	**(1,377)**	(1,377)
Retained (loss)/profit for the financial year	17	**(377)**	1,031
Earnings per share	9	**9.63p**	23.18p
Diluted earnings per share	9	**9.61p**	23.16p
Dividends per share	8	**13.25p**	13.25p

Movements on reserves during the year are shown in Note 17 on page 33.

CONSOLIDATED BALANCE SHEET

As at 31st December 2001

	Notes	2001 £000's	2001 £000's	As restated 2000 £000's	As restated 2000 £000's
Fixed assets					
Tangible assets	10		**8,952**		9,119
Investments	11		**1,453**		1,262
			10,405		10,381
Current assets					
Stocks	12	**7,591**		6,574	
Debtors	13	**6,110**		5,536	
Cash at bank and in hand		**5,205**		7,138	
		18,906		19,248	
Creditors: amounts falling due within one year	14	**(4,851)**		(4,950)	
Net current assets			**14,055**		14,298
Total assets less current liabilities			**24,460**		24,679
Provisions for liabilities and charges	15		**(192)**		(203)
Net assets			**24,268**		24,476
Capital and reserves					
Called up share capital	16		**519**		519
Share premium account	17		**4,536**		4,536
Profit and loss account	17		**19,213**		19,421
Equity shareholders' funds			**24,268**		24,476

These financial statements were approved by the Board of Directors and signed on 15th March 2002 on its behalf by:

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

} Directors

PARENT COMPANY BALANCE SHEET

As at 31st December 2001

	Notes	2001 £000's	2001 £000's	2000 £000's	2000 £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	
Debtors – amounts owed by subsidiary undertakings		**–**		1,048	
Other debtors		**–**		1	
Cash		**1**		–	
		10,912		11,960	
Creditors: amounts falling due within one year	14	**(1,452)**		(1,076)	
Net current assets			**9,460**		10,884
Net assets			**10,915**		12,339
Capital and reserves					
Called up share capital	16		**519**		519
Share premium account	17		**4,536**		4,536
Other reserves	17		**197**		197
Profit and loss account	17		**5,663**		7,087
Equity shareholders' funds			**10,915**		12,339

These financial statements were approved by the Board of Directors and signed on 15th March 2002 on its behalf by:

L F. Bryan

B. W. J. Phillips

Directors

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2001

	Notes	2001 £000's	2000 £000's
Cash flow from operating activities	18	**1,252**	2,255
Dividends received from associates		**–**	118
Returns on investments and servicing of finance	19	**244**	315
Taxation		**(1,018)**	(826)
Capital expenditure and financial investment	19	**(1,034)**	(920)
Equity dividends paid		**(1,377)**	(1,377)
Cash outflow before use of liquid resources and financing		**(1,933)**	(435)
Management of liquid resources		**1,350**	(1,125)
Decrease in cash in the year		**(583)**	(1,560)

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

	2001 £000's	2000 £000's
Decrease in cash in the year	**(583)**	(1,560)
Cash (inflow)/outflow from (decrease)/increase in liquid resources	**(1,350)**	1,125
Net funds at 1st January	**7,138**	7,573
Net funds at 31st December	**5,205**	7,138

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

For the year ended 31st December 2001

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2001 £000's	As restated 2000 £000's
Profit for the financial year	**1,000**	2,408
Currency translation differences	**169**	81
Total recognised gains and losses for the financial year	**1,169**	2,489
Prior year adjustment (Note 15)	**(645)**	–
Total recognised gains and losses since the last annual report	**524**	2,489

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £000's	As restated 2000 £000's
Profit for the financial year	**1,000**	2,408
Dividends	**(1,377)**	(1,377)
Currency translation differences	**169**	81
Net (reduction)/addition to shareholders' funds	**(208)**	1,112
Opening shareholders' funds, originally £25,121,000 before deducting prior year adjustment of £645,000 (Note 15)	**24,476**	23,364
Closing shareholders' funds	**24,268**	24,476

ACCOUNTING POLICIES

(a) Accounting basis

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

The Group has complied with FRS17 "Retirement Benefits", FRS18 "Accounting Policies" and FRS19 "Deferred Tax" for the first time. FRS17 transitional disclosures have been included in these financial statements and accordingly this standard has not impacted on the financial statements. Review of accounting policies for compliance with FRS18 has had no impact on the financial statements. FRS19 has been adopted early and the effects of this are set out in Notes 6 and 15 to the financial statements.

(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 2001 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 2002 and the accounts of Portmeirion Canada Inc. which have a year end of 30th June 2001. The Group accounts include interim financial information to 31st December 2001 for Portmeirion Finance Limited and the results of Portmeirion Canada Inc. for the year to 31st December 2001.

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

(c) Depreciation

(i) Tangible fixed assets

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

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

(ii) Leased assets

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

(d) Investments

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

(e) Stock

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

(f) Turnover

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

(g) Research and development

All expenditure on research and development is written off as it is incurred.

(h) Deferred taxation

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

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

(i) Translation of foreign currencies

(i) Trading

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

(ii) Overseas subsidiary undertakings

For consolidation purposes the results of the overseas subsidiary undertakings are translated at the average rate for the year and monetary assets and liabilities are translated at the rate of exchange ruling at the balance sheet date except where these are covered by forward exchange contracts when the average contract rate is used.

Non-monetary assets and 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 written off as they are incurred.

1. Segmental analysis

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

Turnover by destination	**2001 £000's**	2000 £000's
United Kingdom	**12,576**	11,941
North America	**12,625**	14,429
European Union	**2,006**	2,501
Far East	**1,721**	1,155
Rest of the World	**698**	701
	29,626	30,727

Turnover by origin	**2001 Total sales £000's**	**2001 Inter-segment sales £000's**	**2001 Sales to third parties £000's**	2000 Total sales £000's	2000 Inter-segment sales £000's	2000 Sales to third parties £000's
United Kingdom	**24,893**	**(7,042)**	**17,851**	25,250	(8,094)	17,156
North America	**11,562**	**–**	**11,562**	13,543	–	13,543
Far East	**213**	**–**	**213**	28	–	28
	36,668	**(7,042)**	**29,626**	38,821	(8,094)	30,727

Operating profit by origin	**2001 £000's**	2000 £000's
United Kingdom	**1,926**	2,233
North America	**(575)**	559
Far East	**(217)**	(23)
Operating profit	**1,134**	2,769

Net assets by origin	**2001 £000's**	As restated 2000 £000's
United Kingdom	**18,256**	19,443
North America	**5,363**	4,705
Far East	**230**	100
Operating net assets	**23,849**	24,248
Unallocated net assets	**419**	228
Total net assets	**24,268**	24,476

Unallocated net assets consist of dividends payable of £1,034,000 (2000 – £1,034,000) and investments in associated undertakings of £1,453,000 (2000 – £1,262,000).
Details of investments in associated undertakings are provided in Note 11 on page 30.

2. Raw materials and operating costs

	2001 £000's	2000 £000's
Change in stocks of finished goods and work in progress	**(1,114)**	(702)
Raw materials and consumables	**8,033**	7,465
Other external charges	**8,833**	8,579
Staff costs (see Note 3)	**11,523**	11,382
Depreciation of tangible fixed assets	**1,217**	1,234
	28,492	27,958

3. Staff numbers and costs

	2001 Number	2000 Number
The average number of persons employed during the year, including Directors:		
Operatives	**421**	433
Staff	**233**	227
	654	660
Staff costs:	**£000's**	£000's
Wages and salaries	**9,999**	9,871
Social security costs	**806**	814
Defined contribution and money purchase pension scheme costs	**718**	697
	11,523	11,382

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 Remuneration Report on pages 13 and 14. Details of Directors' current share options are given in Note 16 on pages 32 and 33.

4. Operating profit

		2001 £000's	2000 £000's
Operating profit is stated after charging:			
Research and development		**243**	288
Auditors' remuneration	– audit	**40**	34
	– other services	**22**	88
Operating lease rentals	– property	**367**	290

The audit fee for the Company was £2,000 (2000 – £2,000).

5. Interest receivable and similar income

	2001 £000's	2000 £000's
Bank deposits	**244**	328

6. Taxation on profit on ordinary activities

	2001 £000's	As restated 2000 £000's
United Kingdom Corporation tax at 30% (2000 – 30%)	**641**	1,146
Double taxation relief	**(119)**	(163)
Overseas taxation	**–**	165
Associated undertakings	**89**	95
Deferred taxation origination and reversal of timing differences	**(11)**	(116)
	600	1,127
Adjustments in respect of prior years:		
Corporation tax	**(16)**	(55)
Overseas taxation	**7**	(26)
Double taxation relief	**32**	–
Deferred taxation – adoption of FRS19	**–**	(103)
	623	943

Adoption of Financial Reporting Standard No. 19 "Deferred Taxation" has required a change in the policy of accounting for deferred tax. As a result the comparative figure for the tax on profit on ordinary activities for 2000 has been restated from the previously reported amount of £1,046,000 to £943,000. The impact of adopting FRS19 on the 2001 results is a decrease in the tax charge of £41,000.

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 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:

	2001 £000's	2000 £000's
Profit on ordinary activities before tax	**1,623**	3,351
Tax on profit on ordinary activities at standard rate	**487**	1,005
Factors affecting charge for the period:		
Other timing differences	**–**	(33)
Expenses not deductible for tax purposes	**33**	94
Unrelieved losses in foreign subsidiaries	**95**	7
Foreign tax charged at higher rates than UK standard rate	**14**	(49)
Adjustments to tax charge in respect of prior periods	**(6)**	(81)
Total actual amount of current tax	**623**	943

7. Profit for the financial year

No profit and loss account is presented for the Parent Company as permitted by section 230 of the Companies Act 1985. The consolidated profit of £1,000,000 (2000 - £2,408,000 as restated) includes a loss of £47,000 (2000 - £37,000) which is dealt with in the financial statements of the Parent Company.

8. Dividends

	2001 £000's	2000 £000's
Interim 3.3p per share paid (2000 – 3.3p)	343	343
Final 9.95p per share proposed (2000 – 9.95p)	1,034	1,034
Total 13.25p per share (2000 – 13.25p)	1,377	1,377

9. Earnings per share

Basic

The basic earnings per share is calculated by dividing the profit after taxation of £1,000,000 (2000 - £2,408,000 as restated) by the weighted average number of Ordinary shares in issue during the year of 10,389,230 (2000 - 10,389,230).

Diluted

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

	2001 Earnings £	2001 Weighted No. of Shares	2001 Earnings per Share (Pence)	As restated 2000 Earnings £	As restated 2000 Weighted No. of Shares	As restated 2000 Earnings per Share (Pence)
Basic earnings per share	1,000,000	10,389,230	9.63	2,408,000	10,389,230	23.18
Effect of dilutive securities:						
employee share options	–	15,889	–	–	9,799	–
Diluted earnings per share	1,000,000	10,405,119	9.61	2,408,000	10,399,029	23.16

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 2001	6,352	517	13,183	20,052
Additions	–	158	1,000	1,158
Disposals	–	(54)	(390)	(444)
At 31st December 2001	**6,352**	**621**	**13,793**	**20,766**
Depreciation				
At 1st January 2001	1,236	203	9,494	10,933
Charge for year	115	44	1,058	1,217
On disposals	–	(47)	(289)	(336)
At 31st December 2001	**1,351**	**200**	**10,263**	**11,814**
Net book value				
At 31st December 2001	**5,001**	**421**	**3,530**	**8,952**
At 31st December 2000	5,116	314	3,689	9,119

11. Investments

	2001 £000's	2001 £000's	2000 £000's	2000 £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		**891**		809
Discount on acquisition		**(13)**		(13)
		878		796
Portmeirion Canada Inc.				
100 common shares representing 50% of the issued share capital				
Share of net assets		**575**		466
		1,453		1,262
Partnership:				
15% partnership interest in Cardew Design:				
Opening balance at cost	**–**		816	
Amount written off investment	**–**		(816)	
		–		–
		1,453		1,262

Portmeirion Cardew Limited ceased to be a partner in Cardew Design with effect from 10th February 2001 and changed its name to Portmeirion Services Limited on 8th November 2001.
The increase of £191,000 in the amount disclosed under investments represents the Group's share of profits in associated undertakings.

	2001 £000's	2000 £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 2001 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
The Furlong Mills Company 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 2001 £000's	Group 2000 £000's
Raw materials and other consumables	900	997
Work in progress	1,336	696
Finished goods	5,355	4,881
	7,591	6,574

13. Debtors

	Group 2001 £000's	Group As restated 2000 £000's
Trade debtors	5,322	4,730
Amounts owed by associated undertakings	91	347
Other debtors (see Note 15)	275	59
Prepayments and accrued income	422	400
	6,110	5,536

14. Creditors: amounts falling due within one year

	Group 2001 £000's	Group 2000 £000's	Company 2001 £000's	Company 2000 £000's
Trade creditors	2,532	2,300	–	–
Amounts owed to subsidiary undertakings	–	–	376	–
Corporation tax	345	596	–	–
Other taxation and social security	492	577	6	6
Dividends payable	1,034	1,034	1,034	1,034
Other creditors	448	443	36	36
	4,851	4,950	1,452	1,076

15. Provisions for liabilities and charges

		£000's
Deferred taxation:		
Balance at 1st January 2001 as previously stated*		(442)
Adoption of FRS19 at 1st January 2000	748	
Credit for year ended 31st December 2000	(103)	
Adjustments arising from adopting FRS19 at 31st December 2000		645
Balance at 1st January 2001 as restated		203
Credit for year ended 31st December 2001		(11)
Balance at 31st December 2001		**192**

* In the prior year this balance was included in other debtors in Note 13.

15. Provisions for liabilities and charges (continued)

	2001 Provided in the accounts £000's	2001 Full potential £000's	As restated 2000 Provided in the accounts £000's	As restated 2000 Full potential £000's
Deferred taxation:				
Accelerated capital allowances	**664**	**664**	704	704
Short term timing differences	**(472)**	**(472)**	(501)	(501)
Deferred tax liability	**192**	**192**	203	203

No provision is required for deferred taxation in the accounts of the Parent Company (2000- £nil).
The above figures exclude taxation payable in the event of profits of overseas subsidiary undertakings being distributed.

16. Share capital

	2001 Number 000's	2001 £000's	2000 Number 000's	2000 £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	**10,389**	**519**	10,389	519

The market price of the Company's shares at 31st December 2001 was 172.5p per share. During the year the price ranged between 135.0p and 222.5p per share.

Options granted to Directors and employees to acquire Ordinary shares of 5p in the Company and still outstanding at 31st December 2001 were as follows:

	Number of shares	Exercise price per share	Dates on which exercisable Earliest	Latest
The 1997 Approved Company Share Option Plan	18,000	215.0p	24.04.2001	24.04.2002
The 1997 Unapproved Share Option Scheme	15,000	215.0p	24.04.2001	24.04.2002
The 1997 Approved Company Share Option Plan	25,670	192.5p	26.08.2001	26.08.2002
The 1997 Unapproved Share Option Scheme	8,725	192.5p	15.09.2001	15.09.2002
The 1997 Approved Company Share Option Plan	16,000	142.5p	09.04.2002	09.04.2003
The 1997 Unapproved Share Option Scheme	82,000	142.5p	09.04.2002	09.04.2003

16. Share capital (continued)

Included in the above are options held by the Directors, as follows:

		Number of Options			Exercise	Date from which	Expiry
	At 01.01.01	Granted	Lapsed	At 31.12.01	Price	Exercisable	Date
L. F. Bryan	8,000	–	–	8,000	142.5p	09.04.2002	09.04.2003
A. M. Miles	5,500	–	5,500	–	537.5p	28.04.2000	28.04.2001
A. M. Miles	5,000	–	5,000	–	495.0p	01.07.2000	01.07.2001
A. M. Miles	7,000	–	–	7,000	215.0p	24.04.2001	24.04.2002
A. M. Miles	4,000	–	–	4,000	192.5p	15.09.2001	15.09.2002
A. M. Miles	8,000	–	–	8,000	142.5p	09.04.2002	09.04.2003
B. W. J. Phillips	1,050	–	1,050	–	495.0p	01.07.2000	01.07.2001
B. W. J. Phillips	8,000	–	–	8,000	215.0p	24.04.2001	24.04.2002
B. W. J. Phillips	4,000	–	–	4,000	192.5p	26.08.2001	26.08.2002
B. W. J. Phillips	8,000	–	–	8,000	142.5p	09.04.2002	09.04.2003

No options were exercised by the Directors in the year.

17. Share premium account and reserves

	Share premium account £000's	Profit and loss account £000's
Group		
As at 1st January 2001 as previously stated	4,536	20,066
Prior year adjustment (Note 15)	–	(645)
As at 1st January 2001 as restated	4,536	19,421
Retained loss for the year	–	(377)
Exchange adjustment	–	169
As at 31st December 2001	**4,536**	**19,213**

The cumulative amount of goodwill written off at 31st December 2001 was £515,000 (2000 - £515,000).
The balance carried forward on the profit and loss account of £19,213,000 (2000 - £19,421,000 as restated) includes the Group's share of associated undertakings' post acquisition reserves of £1,378,000 (2000 - £1,187,000).

	Other reserves £000's	Share premium account £000's	Profit and loss account £000's
Company			
As at 1st January 2001	197	4,536	7,087
Retained loss for the year	–	–	(1,424)
As at 31st December 2001	**197**	**4,536**	**5,663**

18. Reconciliation of operating profit to operating cash flows

	2001 £000's	2000 £000's
Operating profit	1,134	2,769
Depreciation	1,217	1,234
Exchange gain	134	66
Profit on sale of tangible fixed assets	(16)	(25)
Increase in stocks	(1,017)	(398)
Increase in debtors	(413)	(1,525)
Increase in creditors	213	134
Net cash inflow from operating activities	1,252	2,255

All of the above relate to continuing operations.

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

	2001 £000's		2000 £000's	
Returns on investments and servicing of finance				
Interest received	244		315	
Net cash inflow for returns on investments and servicing of finance		244		315
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(1,158)		(1,062)	
Sale of tangible fixed assets	124		142	
Net cash outflow for capital expenditure and financial investments		(1,034)		(920)

20. Analysis of net funds

	At 1st January 2001 £000's	Cash flow £000's	At 31st December 2001 £000's
Cash in hand, at bank	1,128	(583)	545
Short term money market deposits	6,010	(1,350)	4,660
Total	7,138	(1,933)	5,205

21. Commitments

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

	2001 Land and buildings £000's	2000 Land and buildings £000's
On leases expiring:		
Within one year	**13**	16
In two to five years	**42**	64
After five years	**335**	162

Capital commitments are as follows:	**2001 £000's**	2000 £000's
Contracted for	**174**	75

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 2001 the gross borrowings of Portmeirion Potteries Limited and Portmeirion Finance Limited amounted to £nil (2000 – £nil).

Included in short term money market deposits (Note 20) is an advance of a European grant of £429,000 which is repayable to the European Commission in the event of the "Promote Life" project not proceeding. The amount secures a guarantee from the Group's bankers, HSBC plc. The objective of the "Promote Life" project is to demonstrate that tackling the environmental issues facing ceramics manufacturers saves rather than increases costs.

23. Related party transactions

The transactions during the year, and outstanding balances at 31st December 2001, with associated undertakings were:

	Purchases £000's	Sales £000's	Debtor £000's	Creditor £000's
Portmeirion Canada Inc.	–	582	79	–
Furlong Mills Ltd.	467	–	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:

	£
A. M. Miles	299
B. W. J. Phillips	476

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.

The following loans to Directors were outstanding as at 31 December 2001:

	Balance at 31.12.2001 £	Balance at 31.12.2000 £
A. M. Miles	–	2,000

The maximum loan amount outstanding for A. M. Miles during the year was the balance outstanding at 31st December 2000.

24. Pensions

The Group operates a defined contribution scheme in the UK, the assets of which are held in a separate trustee administered fund.

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

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

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

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

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

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

	2001
Rate of increase in salaries	**not applicable**
Rate of increase in pensions in payment	**2.5%**
Discount rate	**5.9%**
Inflation assumption	**2.5%**

Fair value and expected rate of return on assets:

	Expected rate of return	**Fair value £000's**
Equities	**6.5%**	**5,067**
Bonds	**4.5%**	**7,659**
Insured annuities	**5.0%**	**230**
Total fair value of assets		**12,956**
Present value of scheme liabilities		**(12,124)**
Surplus in the scheme		**832**
Recoverable surplus or deficit in the scheme		**–**
Related deferred tax		**–**
Net pension asset		**–**

Despite the surplus result, it is not possible to show a pension asset under FRS17 since the surplus is not recoverable. It is not recoverable because it cannot be used up by holding back Group contributions in respect of future pension accrual (since there are no longer any members accruing pension) nor has an arrangement been made with the trustees to make a refund to the Group.
No analysis of reserves is disclosed because there is no pension asset or liability.

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

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

In the United States there was a provision for payments into the money purchase scheme of £74,000 (2000 – £82,000) at 31st December 2001.

25. Financial instruments

Financial assets and liabilities

The additional narrative disclosures required by FRS13 are included on page 11 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:

	2001 £000's	2001 £000's	2000 £000's	2000 £000's
Short term money market deposits:				
Sterling	**3,250**		4,750	
US Dollar	**705**		819	
Euro	**705**		441	
		4,660		6,010
Cash at bank and in hand:				
Sterling	**(71)**		471	
US Dollar	**349**		379	
Euro	**169**		230	
Japanese Yen	**21**		45	
Canadian Dollar	**77**		3	
		545		1,128
		5,205		7,138

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

Currency exposures

As explained on page 11 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 2001.

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:

	2001 Net carrying amount £000's	2001 Estimated fair value £000's	2000 Net carrying amount £000's	2000 Estimated fair value £000's
Cash at bank and in hand and short term money market deposits	**5,205**	**5,205**	7,138	7,138
Derivative financial instruments:				
Foreign exchange contracts	–	50	–	(88)

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 has no material unrecognised gains and losses on financial instruments, deferred gains and losses in respect of financial instruments or terminated financial instruments used as hedges at the beginning or the end of the year.

CONSOLIDATED PROFIT AND LOSS ACCOUNT INFORMATION

Years ended 31st December

	1997 £000's	1998 £000's	1999 £000's	As restated 2000 £000's	**2001 £000's**
Turnover	30,785	26,013	27,469	30,727	**29,626**
Profit on ordinary activities before taxation	5,516	1,004	2,823	3,351	**1,623**
Taxation	(1,878)	(656)	(901)	(943)	**(623)**
Profit on ordinary activities after taxation	3,638	348	1,922	2,408	**1,000**
Dividends	(1,377)	(1,377)	(1,377)	(1,377)	**(1,377)**
Retained profit/(loss)	2,261	(1,029)	545	1,031	**(377)**
Earnings per share	35.04p	3.35p	18.50p	23.18p	**9.63p**

CONSOLIDATED BALANCE SHEET INFORMATION

At 31st December

	1997 £000's	1998 £000's	1999 £000's	As restated 2000 £000's	**2001 £000's**
Capital employed					
Fixed assets	11,395	10,471	10,529	10,381	**10,405**
Net current assets	13,189	12,984	13,583	14,298	**14,055**
Provisions for liabilities and charges	–	–	–	(203)	**(192)**
	24,584	23,455	24,112	24,476	**24,268**
Financed by					
Called up share capital	519	519	519	519	**519**
Share premium account and reserves	24,065	22,936	23,593	23,957	**23,749**
	24,584	23,455	24,112	24,476	**24,268**

Years 1997, 1998 and 1999 have 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

designing beautiful products since 1960

brand diversification

Keeping abreast of consumer trends has always been at the heart of the Portmeirion brand. Focused and complementary product diversification is paramount in sustaining interest from the ever changing consumer market place. From embroidered textiles illuminating gel candles, special finish and coloured glassware to driftwood serving items, Portmeirion's successful brand diversification gives added value to both new and existing ranges.

PORTMEIRION