portmeirion group plc

report &
accounts 2006

contents

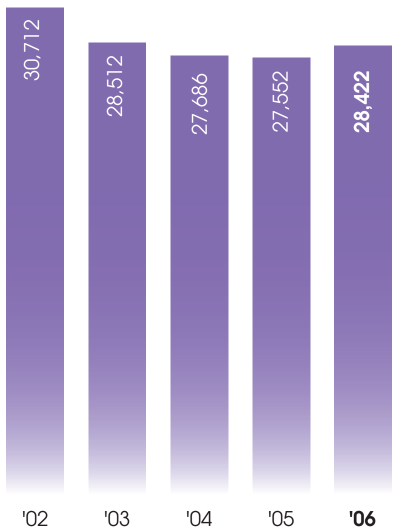
Registered number 124842


PORTMEIRION
SANCERRE
wild at heart
Anish Kapoor

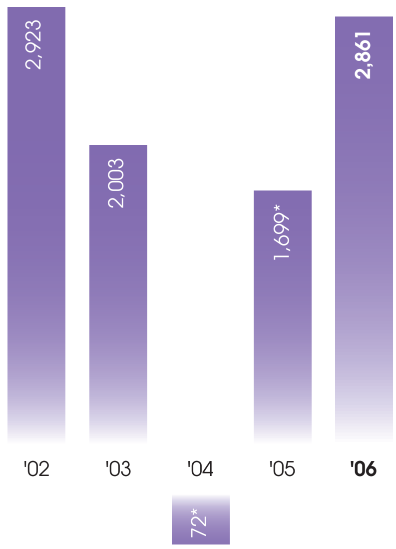
financial highlights

	2006 £000's	As restated 2005 £000's	Increase/ (decrease) %
Turnover	**28,422**	27,552	**3.2**
Pre-tax profit before exceptional items	**2,861**	1,699	**68.4**
Pre-tax profit after exceptional items	**2,584**	1,380	**87.2**
Operating cash flow	**2,731**	3,033	**(10.0)**
Basic earnings per share	**17.03p**	10.57p	**61.1**
Dividends per share	**14.00p**	13.25p	**5.7**

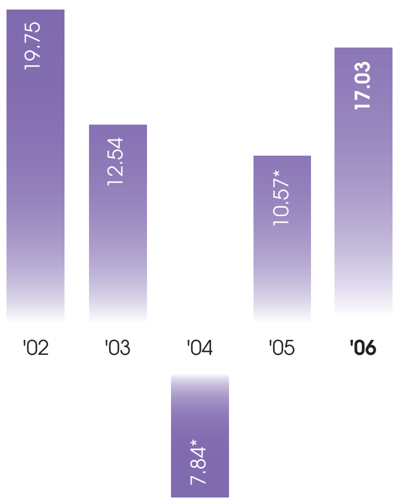
TURNOVER (£'000)



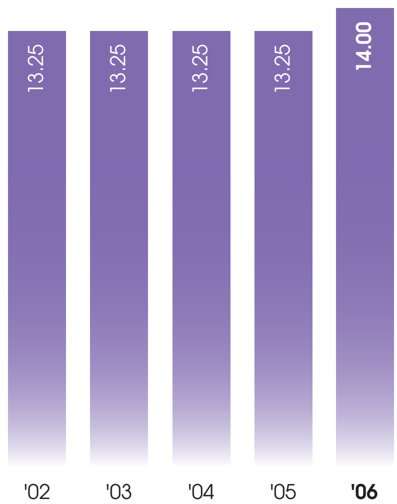
PRE-TAX PROFIT/(LOSS) BEFORE EXCEPTIONAL ITEMS (£'000)



BASIC EARNINGS/(LOSS) PER SHARE (p)



DIVIDENDS PER SHARE (p)



* Restated

directors and advisers

Board of Directors

Arthur W. Ralley	*Chairman*
Lawrence F. Bryan BA	*Chief Executive*
Michael Haynes MCIM (appointed 1st January 2007)	*Group Sales & Marketing Director*
Brett W.J. Phillips BSc ACA	*Group Finance Director*
Richard J. Steele BCOM FCA CTA	*Senior Non-executive Director*
Barbara Thomas Judge BA JD	*Non-executive Director*
Janis Kong BSc OBE	*Non-executive Director*

Secretary and Registered Office

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London Road
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Tel: 01782 744721
Fax: 01782 744061

Auditors

Deloitte & Touche LLP
Birmingham

Bankers

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

Stockbrokers

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London
EC2N 1PH

Registrars

Capita Registrars
Northern House
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Solicitors

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3 Colmore Circus
Birmingham
B4 6BH

KJD
Churchill House
Regent Road
Stoke-on-Trent
Staffordshire
ST1 3RQ

chairman's statement

"Group's strategy delivers excellent results."

Highlights

- 2006 pre-tax profit before exceptional items of £2.861 million compared to £1.699 million in the previous year, an increase of 68%.
- Annual sales of £28.4 million, 3.2% above the previous year. Second half sales increased by 11% above the previous year's second half.
- Exceptional costs for the year amounted to £0.277 million compared to £0.319 million in the previous year. Therefore, total pre-tax profit for the year was £2.584 million compared with £1.380 million the previous year, an increase of 87%.
- Proposed final dividend of 10.70p, an increase for the year of 5.7%.
- 2006 earnings per share of 17.03p, compared to 10.57p in 2005, an increase of 61%.
- Acquisition of the Pimpernel brand of placemats, coasters and trays in October 2006.

Dividend

The Board is recommending a final dividend of 10.70p bringing the total to 14.00p for the year, an increase of 5.7% compared to 2005. The dividend will be paid, subject to shareholders' approval, on 25th May 2007, to shareholders on the register at the close of business on 27th April 2007.

Results for the year

2006 has been a year when the Group's strategy of transformation to a supplier of designer branded homewares and giftware, rather than solely a ceramic manufacturer, has delivered excellent results. Furthermore, the acquisition of the Pimpernel brand will provide important synergies for future development and expansion.

I am pleased to report another creditable improvement in pre-tax profit of £1.2 million, due in part to an increase in Group annual sales of 3.2% and also to a significant increase to both production gross profit margin and gross profit margins on sourced products.

Exceptional management re-organisation costs of £0.277 million were incurred as a result of further reducing costs in our manufacturing operation. There will also be exceptional costs in 2007 as the commissioning of the new warehouse is completed and the move to it takes place during the first half of 2007.

Net dollar receipts in 2007 are expected to be significantly lower than 2006 as more products are sourced from the Far East in US dollars. The Group has hedged against the effect of movements in the US dollar exchange rate. Approximately 75% of the expected net dollar receipts in 2007 are covered by forward exchange contracts.

As a result of these sales and profit margin improvements, the Group generated £2.7 million cash at the operating level in 2006. Capital expenditure of £2.3 million, including £0.5 million on the acquisition of the Pimpernel brand and £1.5 million on plant and equipment for the new warehouse, and maintaining the dividend at £1.3 million have been the significant factors in the £1.1 million reduction of the Group's cash balance to £5.2 million at the year end.

The 2006 full year cash contribution of £0.348 million to the Group's closed final salary pension scheme was the same as in 2005. The pension scheme deficit, net of deferred tax, has increased under revised FRS 17 assumptions by £1.1 million to £4.0 million.

The Group owned a 4.8 acre freehold site, which will be vacated during the first half of 2007 when the move to the new warehouse is made. In January 2007 this site was sold for a cash sum of £2.175 million, which will create an exceptional pre-tax profit of £1.7 million in the first half of 2007.

Given the strength of the Group's balance sheet and this injection of cash, the Board is recommending an increase in the final dividend to 10.70p.

Group sales for the year increased by 3.2% over the previous year and by 4.2% when measured at the same US dollar exchange rate as 2005. At the half year I reported Group sales 5.7% lower than 2005, but following an excellent increase of 11% in the second half of 2006 annual sales finished 3.2% ahead. This was due to a very strong second half sales performance in North America and the Far East coupled with a major improvement in UK sales. At the half-year sales in the UK were 22% lower than 2005, but sales in the second half were almost level with 2005, giving an annual figure which was 12% lower. This significant improvement in UK sales has continued into the first two months of 2007. These increases have been achieved with the introduction of new product ranges sourced in the Far East, and with added value promotional initiatives with our classic ranges manufactured in the UK.

Once again the Group achieved an excellent increase in total export sales of 11.0%. Notable improvements were a 7.4% increase in US sales and sales to Canada of nearly double that of 2005. Added to these was yet another very substantial increase of 20% in sales to South Korea, which has been achieved primarily with sales of classic ranges. We are introducing some of our contemporary ranges into South Korea in 2007 and, therefore, I believe we can obtain further growth in this very important market. In 2006 exports totalled 70% of the Group's sales, which is a very positive reflection on the continuing collectability of our classic ranges around the world.

Product strategy

The Group's strategy of producing excellent design, quality and value in new product ranges, sourced overseas, has delivered significant increased sales in the second half of 2006, and with more new ranges arriving the trend is expected to continue this year. As previously reported, the range designed in collaboration with Sophie Conran is a runaway success and is being expanded in 2007. Additional collaborative ranges are being introduced this year under the Portmeirion banner, and I expect further sales gains to result.

The Group made an important acquisition of the Pimpernel brand in the fourth quarter of 2006. Pimpernel has been the leading brand of placemats, coasters and trays in the UK and has also established markets in the US and Canada. The main Pimpernel functions have been promptly integrated into the Portmeirion systems at minimal cost, and the necessary sales and marketing team is in place. The Portmeirion design and marketing teams have started to exploit the enormous potential for incremental sales, with complementary designs and new channels of distribution. All Pimpernel products are sourced in the Far East, and together with the increasing programme of Portmeirion branded products also sourced, US dollar purchases will increase very considerably in 2007 and beyond. Since some 40% of Group sales are in US dollars, the result is an increasing natural hedge against adverse exchange rate movements.

Manufacturing and warehousing

The consolidation of two manufacturing sites into one was completed during 2005, and 2006 saw the first full year of subsequent benefits. The estimated annual operating cost reduction of £0.5 million was easily achieved: the actual figure being close to £1.0 million per annum. The manufacturing gross margin in 2006 increased by 3 percentage points following a similar improvement the previous year, despite significant increases in energy costs in 2006. The Group will continue to provide the necessary investment to ensure further improvements in manufacturing productivity at its UK site and, therefore, in gross margins, and can expect to at least maintain the gross margins on sourced products.

The new warehouse is almost completed and commissioning of the automatic handling equipment is underway. I expect the move from the old warehouse to the new to be completed by mid-year, on schedule. I have reported regularly on the benefits that will result in the quality of service to our retail customers, and this will benefit the Group's bottom line.

Management team

As previously reported, the Group has expanded its sales and marketing team, transferring costs from production and administration. This strategy is now producing positive results on two fronts. The Group has successfully opened new national accounts with the new product ranges that have been introduced, both in the UK and the US, and new export business has been generated with both the classic and new product ranges.

With the design team producing a steady flow of innovative new ideas, the Group has a very strong integrated team for future success.

Current trading and prospects

I am pleased to report a positive start to 2007, with a sales increase percentage in double digits for the first two months compared to 2006. This is before the contribution of sales from the new Pimpernel ranges, which will become available in the second quarter of 2007. The Group is now in a position to maintain this momentum, with many new product ranges of tableware and giftware in development. I, therefore, believe that the Group can increase overall sales whilst continuing to keep a tight rein on costs, with the resultant benefit to Group profitability.

The Group's new Chairman, Dick Steele, currently the Senior Non-executive Director, succeeds me with effect from 1st May 2007 and with his able leadership and a very experienced Board of Directors, I expect the Group to continue the excellent progress of recent years.

I would like to thank the management team and workforce for their valuable contribution to the success of the Group in 2006.

Arthur Ralley

Arthur Ralley
Chairman

14th March 2007


PORTMEIRION
new london architecture

chief executive's review

PORTMEIRION

"2006 has solidified our position in the market as a supplier of quality, well designed homewares."

Product assortments for a changing market

Following our thrust in 2005 to diversify our product range, 2006 showed another marked increase in our ranges and more development outside of traditional dinnerware. Ranges and new items launched during the year accounted for over 15% of sales. The dinnerware segment of our business, although still in the majority, has diminished as a percentage of overall sales in accordance with our strategic plan. Concentrated product launches in conjunction with specific customer demand has given us significant new account volume which we expect to continue in 2007.

Sales of season specific products such as "A Christmas Story" increased worldwide by over 20%. 2006 has solidified our position in the market as a supplier of quality, well designed, homewares in ceramics, glass, candles, textiles, melamine and placemats.

Acquisitions and growth

The Group has stated for several years that it was looking for any acquisitions where price and strategic fit were appropriate. In October 2006 we purchased the Pimpernel family of brands. These included the Pimpernel, Cloverleaf and Manorcraft names used most predominately in the placemat and coaster market.

Pimpernel itself is recognised as the leading brand in its field worldwide. Over 70 years old, the brand stands for quality and excellent design; "Art for the Table" was their tag line. Following the purchase late in 2006 we re-launched these brands worldwide at the January and February 2007 trade shows. The results were excellent and we are well on our way to achieving our plan for Pimpernel sales in 2007 which are expected to be over 10% of Group turnover.

We continue to look for similar opportunities.

Global manufacturing

We continued to deliver on our planned production re-organisation in 2006. The savings from our 2005 consolidation proved more lucrative than initially forecast and resulted in a reduction in annual operating costs of close to £1 million. These savings, offset by increases in fuel costs, lead to a 3 percentage points increase in manufactured margin which, when combined with an even greater increase in margins on sourced goods and good cost control, resulted in a significant 96% increase in operating profits.

Careful attention is paid to maintaining the highest quality standards from all product sources. Close monitoring of all factories involved in the making of our products is standard practice for the Group.

2006 saw 20% of our total volume come from sourced production and our goal for 2007 is over 35%. The Group does not invest in manufacturing sites outside the UK, yet we monitor the age of employees and working conditions in all factories from which we obtain production. We also maintain close watch for governmental instability and avoid potential trouble spots when choosing sites.

Warehousing and customer service

The new warehouse is on schedule to begin operation during the first half of 2007. This will consolidate three existing warehouses into one and will speed up our ability to ship and serve our customers' needs.

The planned consolidation has already allowed us to sell a property which will no longer be needed. We realised £2.175 million in cash and generated an exceptional gain on the sale of £1.7 million in 2007. This has strengthened our cash balance and will reduce operating costs. The site was purchased advantageously by previous management.

The new warehouse and its opening coincide perfectly with the anticipated upswing in volume and inventory which accompanies the Pimpernel acquisition. The trade off in product development and manufacturing savings, by increasing sourced goods in our assortment and increased inventory, has been planned for and will still result in significant net improvements in the operating profit of the Group.

Summary

Pre-tax profit before exceptionals of £2.9 million (up by 68.4% over 2005) and sales of £28.4 million (up by 3.2% over 2005) show 2006 as the second successful year in the redirection and turnaround of the Group. 2007 has started well and the Group is committed to its strategic plan. The turnaround in the second half of 2006 in UK sales bodes well for the future and endorses the acceptance of new products and their countries of origin by the market. The constant efforts to increase efficiency at all levels within the Group continue and will keep sending increased contributions to the bottom line.

Our management team is upgraded constantly and when combined with a talented and skilled workforce, will deliver our goal to be eminently successful as a manufacturer, distributor and designer of desirable household goods for the future.

I would like to comment on the changes to the Board for 2007. I welcome Michael Haynes as Group Sales and Marketing Director. His experience and expertise will be most important to the future strategic planning of the Group. I also wish to thank Arthur Ralley for his dedicated service to the Company over the last 10 years. He has overseen the Company evolve into a more competitive and viable operation during his tenure as Chairman and will be greatly missed. I will now welcome Dick Steele, currently the Senior Non-executive Director, to the new post of Non-executive Chairman, effective 1st May 2007. Dick has been a Non-executive Director of the Group since May 1999. His knowledge of the business and general acumen will ensure a seamless transition and provide a beneficial perspective for the new Board.

Lawrence Bryan

Lawrence Bryan
Chief Executive

14th March 2007


PORTMEIRION

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 2006.

Principal activity
The Group markets ceramic tableware, cookware and giftware, glassware, candles and other associated products, and manufactures ceramics. There have been no changes in activities during the year.

Business review
A full review of the performance of the Group for the year is given in the section of the Chairman's Statement entitled "Results for the year" on page 5. The Chairman comments on current trading and prospects on page 6.

Principal risks and uncertainties
The Group Board considers the risks to the business at every Board meeting. It formally reviews and documents the principal risks to the business at least annually. The review includes the identification and planned response to the following areas of risk:

Market and customer related risks
Supplier, manufacturing and distribution related risks
Financial, regulatory and IT related risks
People related risks

Principal risks identified include:

Competitor pressure
Reliance on key customers
Reliance on key suppliers
Major systems failure
Loss of key personnel
Currency exchange rate risk
Possible increasing liability in respect of the closed defined benefit pension scheme

Key performance indicators
The Group Board use a range of performance measures to monitor and manage the business. The Board regards measures relating to the delivery of shareholder value as particularly important. The following are regarded as key performance indicators:

Turnover
Profit before tax
Operating cash flow
Earnings per share

These measures together with their comparatives are shown in the financial highlights on page 2.

Many other non-financial performance measures are used to manage the business including:

Customer service levels
New product delivery performance
Production yields
Incidence of accidents

Results
The results for the year are set out on page 25. The movements on reserves are shown in Note 19 on page 40.

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 2nd October 2006 an interim dividend of 3.3p (2005 - 3.3p) per share was paid on the Ordinary share capital. The Directors recommend that a final dividend of 10.70p per share be paid (2005 - 9.95p), making a total for the year of 14.00p (2005 - 13.25p) per share. The final dividend will be paid, subject to shareholders' approval, on 25th May 2007, to shareholders on the register at the close of business on 27th April 2007.

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 2006 5p Ordinary shares			As at 31st December 2005 5p Ordinary shares		
	Beneficial	**Non-beneficial**	**Options**	Beneficial	Non-beneficial	Options
L.F. Bryan	**150,000**	**–**	**220,000**	150,000	–	200,000
Lady Judge	**5,000**	**–**	**–**	5,000	–	–
J. Kong	**5,000**	**–**	**–**	3,000	–	–
B.W.J. Phillips	**10,455**	**–**	**220,000**	10,455	–	180,000
A.W. Ralley	**20,000**	**–**	**220,000**	20,000	–	200,000
R.J. Steele	**18,000**	**–**	**–**	18,000	–	–

J.Kong purchased 2,000 Ordinary shares in the Company on 28th March 2006 at 225p per share.

Details of changes in share options can be found in the Directors' Remuneration Report on page 19.

Details of transactions with Directors and other related parties are to be found in Note 25 on page 42.

Directors proposed for re-election

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

J. Kong

Janis Kong, aged 56, is a non-executive director of the Royal Bank of Scotland Group PLC and Kingfisher PLC. She is a director of VisitBritain and chairman of the board of trustees of Forum for the Future. She is a former executive chairman of Heathrow Airport Limited, former chairman of Heathrow Express Limited and a former member of the BAA plc Board. She holds an honorary Doctorate with the Open University and has received an OBE. Her contract expires on the completion of one year’s notice.

B.W.J. Phillips

Brett Phillips, aged 49, 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 boards, and on the board of Furlong Mills Limited. His contract expires on the completion of one year’s notice.

Non-executive Directors

R.J. Steele - Senior Non-executive Director

Dick Steele is the Senior Non-executive Director. He is a Chartered Accountant and a Member of the Institute of Taxation. He has spent ten years as Group Finance Director of listed companies, latterly with Storehouse and before that Lloyds Chemists. He is Non-executive Chairman of HobbyCraft, Original Additions and Europeople.

J. Kong

See above for biographical information.

Lady Judge

Lady Judge is a lawyer, international banker and entrepreneur. She is chairman of the UK Atomic Energy Authority, deputy chairman of Friends’ Provident plc as well as a director of Quintain Estates and Development. Formerly she was a commissioner of the United States Securities and Exchange Commission and an executive director of News International and Samuel Montagu plc.

Environment
The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce damage that might be caused by the Group's activities. Initiatives designed to reduce the Group's impact on the environment include safe disposal of manufactured waste, recycling and reducing energy consumption.

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 2006, 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 briefings. 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 is an Investor in People. The Directors are committed to the continuing development of the Group's employees via the principles of Investors in People. See Note 3 on page 34 for staff numbers and costs.

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 excluding treasury shares as at 14th March 2007:

	Number of shares	Percentage
Fortress Finance Investment Inc	2,471,513	25.26%
Saffery Champness Trust Corporation	1,436,195	14.68%
Shahrzad Farhadi	632,333	6.46%
Kamrouz Farhadi	562,917	5.75%
Susan Cooper-Willis	605,000	6.18%
Euan Cooper-Willis	522,150	5.34%
Rysaffe Trustee Company (C.I.) Limited	356,077	3.64%
Small Companies Dividend Trust Plc	300,000	3.07%

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 23rd May 2006 in respect of £164,513 of share capital. This authority expires on 22nd May 2011. The Company's practice is to replace this authority annually and approval is being sought in Resolution 6 at the Annual General Meeting in respect of a general authority to allot up to £163,096 of share capital, approximately equal to a third of the present issued share capital excluding treasury shares, to expire on 20th May 2012.

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 share capital whose allotment is authorised by the general authority referred to above, the allotment of Ordinary shares pursuant to the terms of the employee share scheme and the allotment otherwise of up to 489,291 Ordinary shares, approximately equal to five per cent of the issued share capital of the Company excluding treasury shares. 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. There are a number of restrictions on the Company's ability to make market purchases, as detailed in the Notice of Annual General Meeting, and in particular the maximum number of Ordinary shares that may be purchased is 978,581, approximately equal to ten per cent of the present issued share capital of the Company excluding treasury shares. The Directors intend to propose that this authority be renewed annually.

Financial position
The Group's net funds at 31st December 2006 were £5.2million (2005 - £6.3million).

Financial risk management policies
The principal financial risks to the Group are credit risk and currency exchange rate risk.

Credit risk
The Group's principal financial assets are cash, short term deposits and trade receivables. The Group's policy is to place funds on short-term deposit with highly rated institutions.

Accounts receivable are monitored closely and provisions are made for bad and doubtful debts where appropriate. The credit worthiness of customers is assessed prior to opening new accounts and on a regular basis for significant customers.

Currency exchange rate risk
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 net US dollar receipts for 2007. The Group enters into derivative transactions only to manage exposure arising from its underlying business. No speculative derivative contracts are entered into. Note 28 on pages 45 and 46 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 2006 was 35 (2005 - 33). The Company has no trade creditors.

Charitable and political contributions
Contributions to various charities in the form of goods during the year amounted to £2,417 (2005 - £14,766) at cost. There were no political contributions during the year.

Acquisition of the Company's own shares
During the year the Company purchased 136,800 Ordinary shares of 5p each representing 1.3% of the called-up Ordinary share capital, for a consideration of £302,000. The reason for the purchase was to reduce surplus cash and enhance earnings per share.

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.

Subsequent events
On 12th January 2007 the Group completed the sale of a 4.8 acre freehold site in Stoke-on-Trent for £2,175,000 in cash. Further details are given in Note 30 on page 47.

Auditors
Deloitte & Touche LLP 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.

Each of the persons who is a Director at the date of approval of this report confirms that:

(1) So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(2) the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

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 2007 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
Company Secretary

14th March 2007

Introduction
As a company listed on the Alternative Investment Market (AIM), the Company is not required to comply with the Directors' Remuneration Report Regulations 2002 (the "Regulations"). Whilst the Company is not required to comply with the Regulations, it has used the Regulations as best practice guidance and voluntarily presented disclosures that reflect the extent of the Company's application of 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.

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 Lady Judge 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 Remuneration 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 2007 profit before taxation (PBT) exceeds an annual target, then a bonus pool is calculated. The bonus pool is shared between the three Executive Directors in proportion to their basic salary. The bonus pool is calculated by taking a maximum of 15% of the amount by which the Group profit before taxation exceeds the target. The maximum bonus payable is 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 24th March 2005 can normally only be exercised if the basic earnings per share of the Group for the year ending 31st December 2007 is more than 15 per cent higher than the average of the basic earnings per share of the Group for each of the years ended 31st December 2001, 31st December 2002 and 31st December 2003.

Options granted to the Executive Directors under the Portmeirion 2002 Share Option Scheme on 25th April 2006 can normally only be exercised if the basic earnings per share of the Group for the year ending 31st December 2008 is more than 15 per cent higher than the basic earnings per share of the Group for the year ended 31st December 2005. 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 Group's value.

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 based on the movement in Company share price between the average mid-market price over the three trading days prior to the date the incentive is granted and the average mid-market price over the three trading days after the day of the announcement of the results for the financial year two years after the financial year in which the incentives are granted, subject to a maximum increase in value per share of £4.00. The incentive payment is calculated by reference to nominal shareholdings.

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

No incentives under this scheme were granted to Directors during 2006.

Pensions

B.W.J. Phillips and A.W. Ralley, 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 Group 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. B.W.J. Phillips was a member of the plan at that time and holds preserved benefits.

On 5th April 1999, the defined benefit UK pension scheme was closed to new entrants and to future accrual. B.W.J. Phillips was a member of the scheme at that time and holds preserved benefits.

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

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.

J. Kong and B.W.J. Phillips are proposed for re-election at the next Annual General Meeting.

They both 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
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, long-term incentive or share option schemes and no pension contributions are made in respect of them.

Aggregate Directors' remuneration
The total amounts for Directors' remuneration were as follows:

	2006 £	2005 £
Emoluments	648,806	467,430
Long-term incentive plan payments	–	–
Money purchase pension contributions	39,594	38,647
	688,400	506,077

Directors' emoluments

	Salary & fees £	Benefits £	Bonus £	Gains made on exercise of share options £	Total £	Pension contri-butions £	2006 Total £	2005 Total £
Executive								
A.W. Ralley	100,900	1,486	51,767	5,200	159,353	13,117	172,470	115,436
L.F. Bryan	146,874	11,940	70,934	–	229,748	12,573	242,321	166,170
B.W.J. Phillips	126,400	5,270	64,850	1,885	198,405	13,904	212,309	145,666
Non-executive								
Lady Judge [(1)]	18,850	–	–	–	18,850	–	18,850	18,025
J. Kong	18,850	–	–	–	18,850	–	18,850	18,025
R.J. Steele [(2)]	23,600	–	–	–	23,600	–	23,600	20,600
Total	435,474	18,696	187,551	7,085	648,806	39,594	688,400	483,922

Notes
(1) The remuneration for Lady Judge was made to BT Consulting Inc. Limited in respect of her services.
(2) The remuneration for R.J. Steele was made to Adsum Limited in respect of his services.

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

Directors' pension entitlements

B.W.J. Phillips is a member of the Group's defined benefit pension scheme which closed on 5th April 1999. He had accrued entitlements under the scheme as follows:

	Accrued pension at 01.01.06	Increase in accrued pension in the year	Accrued pension at 31.12.06
	£	£	£
B.W.J. Phillips	20,270	584	20,854

His 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 were as follows:

	Transfer value at 01.01.06	Contributions made by the Director	Increase in transfer value in the period net of contributions	Transfer value at 31.12.06
	£	£	£	£
B.W.J. Phillips	248,341	–	35,342	283,683

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

	Number of Options						Exercise	Dates on which exercisable	
Director	At 01.01.06	Granted	Exercised	Surrendered	Lapsed	At 31.12.06	Price	Earliest	Latest
The 1997 Unapproved Share Option Scheme									
L.F. Bryan	50,000	–	–	50,000	–	–	187.5p	10.04.2005	08.04.2006
B.W.J. Phillips	24,200	–	–	24,200	–	–	187.5p	10.04.2005	08.04.2006
A.W. Ralley	34,000	–	–	34,000	–	–	187.5p	10.04.2005	08.04.2006
The 1997 Approved Company Share Option Plan									
B.W.J. Phillips	5,800	–	5,800	–	–	–	187.5p	10.04.2005	08.04.2006
A.W. Ralley	16,000	–	16,000	–	–	–	187.5p	10.04.2005	08.04.2006
The Portmeirion 2002 Share Option Scheme									
L.F. Bryan	150,000	–	–	–	–	150,000	167.5p	25.03.2008	23.03.2009
L.F. Bryan	–	70,000	–	–	–	70,000	222.5p	26.04.2009	24.04.2010
B.W.J. Phillips	150,000	–	–	–	–	150,000	167.5p	25.03.2008	23.03.2009
B.W.J. Phillips	–	70,000	–	–	–	70,000	222.5p	26.04.2009	24.04.2010
A.W. Ralley	150,000	–	–	–	–	150,000	167.5p	25.03.2008	23.03.2009

(1) On 17th March 2006 the Company agreed to issue a discretionary bonus to the following Directors on the basis that they surrendered the following options issued pursuant to the 1997 Unapproved Share Option Scheme:

Director	Number of options surrendered	Cash bonus received £
L.F. Bryan	50,000	18,750
B.W.J. Phillips	24,200	9,075
A.W. Ralley	34,000	12,750

The aggregate emoluments disclosed on page 18 do not include the above bonuses.

(2) The performance criteria attaching to share options are detailed on page 17.

(3) The share price reached a high of 257.5p and a low of 191.0p during 2006. The average share price during 2006 was 230.0p. The share price on 31st December 2006 was 257.5p.

(4) The gains made by the Directors on the exercise of share options under the 1997 Approved Company Share Option Plan during the year were as follows:

Director	Gain
	£
B.W.J. Phillips	1,885
A.W. Ralley	5,200
	7,085

No share options were exercised in 2005.

The options were exercised on 20th March 2006. The share price on that date was 222.5p.

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

B.W.J. Phillips
Company Secretary
14th March 2007

As a company listed on the Alternative Investment Market (AIM) the Company is not required to adhere to the Combined Code on Corporate Governance (the "Code"), published in June 2006. Whilst the Company is not required to comply with the Code, it has used the Code as best practice guidance and voluntarily presented disclosures that reflect the extent of the Company's application of the Code.

The Board

The Company is controlled by the Board of Directors. Until 31st December 2006 the Board comprised three Executive and three Non-executive Directors. With effect from 1st January 2007 Michael Haynes was appointed to the Board as Group Sales and Marketing Director; a fourth Executive Director. The Board considers that the Non-executive Directors bring an independent judgement to bear. All Non-executive Directors have contracts which expire on the completion of one year's notice. These are available for inspection at the Company's registered office and at the Annual General Meeting. 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. Following the principles of the Code the Chief Executive, who was appointed such in 2001, intends to retire for re-election every third year.

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. Arthur Ralley will retire from the Board on 30th April 2007. On his retirement Dick Steele, currently Senior Non-executive Director, will be appointed as Non-executive Chairman. 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; approval of the annual and interim results; annual budgets; dividend policy; and Board structure. 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.

All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. In addition, minutes of the meetings of the directors of the main UK subsidiary are circulated to the Group Board of Directors. 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 following table shows the attendance of the Directors at meetings of the Board and its principal committees.

	Board		**Audit Committee**		**Remuneration Committee**		**Nomination Committee**	
	Attended	**Held**[1]	**Attended**	**Held**[1]	**Attended**	**Held**[1]	**Attended**	**Held**[1]
A.W. Ralley (Chairman)	6	6	4*	–	3*	–	2	2
L.F. Bryan (Chief Executive)	6	6	4*	–	–	–	2	2
Lady Judge (Non-executive)	6	6	4	4	3	3	2	2
J. Kong (Non-executive)	6	6	4	4	3	3	2	2
B.W.J. Phillips (Group Finance Director)	6	6	4*	–	1*	–	2*	–
R.J. Steele (Senior Non-executive)	6	6	4	4	3	3	2	2

Notes:

[1] Meetings held during the time the Director was a member of the Board or Committee and shown as nil if not a committee member.

* Meetings which the Director attended, in whole or in part, by invitation.

During the year the Board carried out an evaluation of its own performance. The evaluation was based on the guidance included in Suggestions for Good Practice from the Higgs Report. The guidance was considered in detail by the Board and the results were analysed and documented. The Board concluded that it had performed effectively. During the year appropriate appraisals were carried out with the Directors. The Group Finance Director was appraised by the Group Chief Executive who, in turn, was appraised by the Chairman. Additionally, the Chairman appraised the Non-executive Directors and they appraised the Chairman.

Nomination Committee
The Nomination Committee is chaired by A.W. Ralley and comprises all the Non-executive Directors, the Chairman and the Chief Executive. It 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.

Remuneration Committee
The Remuneration Committee is chaired by R.J. Steele and comprises all the Non-executive Directors. The Remuneration Committee is responsible for making recommendations to the Board in relation to all aspects of remuneration for Executive Directors. 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. When designing schemes of performance-related remuneration the Remuneration Committee considers the provisions in Schedule A to the Code. The remuneration of the Non-executive Directors is determined by the Executive Directors.

Audit Committee
The Audit Committee is chaired by R.J. Steele and comprises all the Non-executive Directors. 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.

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 the 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.

Relations with Shareholders

The Group encourages two way communication with both its institutional and private investors and responds quickly to all queries received. The Chairman talks regularly with the Group's major shareholders and ensures that their views are communicated fully to the Board. All shareholders receive notice of the Annual General Meeting at which all Committee chairmen will be available for questions.

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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 these 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 UK 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 company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

To the Members of Portmeirion Group PLC

We have audited the Group and Parent Company financial statements (the "financial statements") of Portmeirion Group PLC for the year ended 31st December 2006 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, the Group statement of total recognised gains and losses and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The Director's responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's statement and Chief Executive's review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 Group's and Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Parent Company's affairs as at 31st December 2006 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham, United Kingdom
14th March 2007

consolidated profit and loss account

For the year ended 31st December 2006

	Notes	Before exceptional items 2006 £000's	Exceptional items 2006 £000's	Total 2006 £000's	As restated (Note 27) Before exceptional items 2005 £000's	Exceptional items 2005 £000's	Total 2005 £000's
Turnover - continuing operations	1	**28,422**	**–**	**28,422**	27,552	–	27,552
Raw materials and operating costs	2	**(25,747)**	**(277)**	**(26,024)**	(26,045)	(284)	(26,329)
Operating profit/(loss) - continuing operations	4	**2,675**	**(277)**	**2,398**	1,507	(284)	1,223
Profit on sale of tangible fixed assets		**–**	**–**	**–**	–	238	238
Share of profit of associated undertakings		**64**	**–**	**64**	68	–	68
Impairment of investment in associated undertaking	13	**(46)**	**–**	**(46)**	–	(273)	(273)
Interest receivable and similar income	5	**231**	**–**	**231**	207	–	207
Interest payable and similar charges	6	**(1)**	**–**	**(1)**	(2)	–	(2)
Other finance costs	26	**(62)**	**–**	**(62)**	(81)	–	(81)
Profit/(loss) on ordinary activities before taxation		**2,861**	**(277)**	**2,584**	1,699	(319)	1,380
Taxation on profit on ordinary activities	7			**(912)**			(317)
Profit on ordinary activities after taxation being the profit for the financial year	8			**1,672**			1,063
Earnings per share	10			**17.03p**			10.57p
Diluted earnings per share	10			**16.80p**			10.54p
Dividends per share paid and proposed	9			**14.00p**			13.25p

Movements on reserves during the year are shown in Note 19 on page 40.

consolidated balance sheet
As at 31st December 2006

	Notes	2006 £000's	2006 £000's	As restated (Note 27) 2005 £000's	As restated (Note 27) 2005 £000's
Fixed assets					
Intangible assets	11		**502**		–
Tangible assets	12		**6,243**		5,335
Investments	13		**1,332**		1,413
			8,077		6,748
Current assets					
Stocks	14	**8,352**		5,913	
Debtors	15	**4,467**		5,243	
Cash at bank and in hand		**5,203**		6,294	
		18,022		17,450	
Creditors: amounts falling due within one year	16	**(5,541)**		(3,080)	
Net current assets			**12,481**		14,370
Total assets less current liabilities			**20,558**		21,118
Provisions for liabilities	17		**(51)**		(43)
Net assets excluding pension deficit			**20,507**		21,075
Pension deficit net of related deferred tax	26		**(3,969)**		(2,870)
Net assets including pension deficit			**16,538**		18,205
Capital and reserves					
Called up share capital	18		**523**		521
Share premium account	19		**4,657**		4,580
Treasury shares	19		**(1,266)**		(964)
Share based payment reserve	19		**38**		12
Profit and loss account	19		**12,586**		14,056
Equity shareholders' funds			**16,538**		18,205

These financial statements were approved by the Board of Directors and signed on 14th March 2007 on its behalf by:

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

company balance sheet
As at 31st December 2006

	Notes	2006 £000's	2006 £000's	As restated (Note 27) 2005 £000's	As restated (Note 27) 2005 £000's
Fixed assets					
Investment in subsidiary undertakings	13		**1,455**		1,455
Current assets					
Debtors – of which £10,911,000 (2005-£10,911,000) falls due after more than one year	15	**10,938**		10,911	
Creditors: amounts falling due within one year	16	**(5,941)**		(4,279)	
Net current assets			**4,997**		6,632
Net assets			**6,452**		8,087
Capital and reserves					
Called up share capital	18		**523**		521
Share premium account	19		**4,657**		4,580
Other reserves	19		**197**		197
Treasury shares	19		**(1,266)**		(964)
Share based payment reserve	19		**38**		12
Profit and loss account	19		**2,303**		3,741
Equity shareholders' funds			**6,452**		8,087

These financial statements were approved by the Board of Directors and signed on 14th March 2007 on its behalf by:

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

consolidated cash flow statement

For the year ended 31st December 2006

	Notes	2006 £000's	2005 £000's
Cash inflow from operating activities	20	**2,731**	3,033
Returns on investments and servicing of finance	21	**303**	148
Taxation (paid)/received		**(306)**	54
Capital expenditure and financial investment	21	**(2,251)**	292
Equity dividends paid	9	**(1,305)**	(1,330)
Cash (outflow)/inflow before use of liquid resources and financing		**(828)**	2,197
Management of liquid resources	22	**1,133**	(1,654)
Financing	21	**(263)**	(762)
Increase/(decrease) in cash in the year		**42**	(219)

Reconciliation of net cash flow to movement in net funds (Note 22)

	2006 £000's	2005 £000's
Increase/(decrease) in cash in the year	**42**	(219)
Cash (inflow)/outflow from (decrease)/increase in liquid resources	**(1,133)**	1,654
Net funds at 1st January	**6,294**	4,859
Net funds at 31st December	**5,203**	6,294

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2006 £000's	As restated (Note 27) 2005 £000's
Profit for the financial year	**1,672**	1,063
Currency translation differences	**(498)**	380
Actuarial loss on defined benefit pension scheme	**(1,856)**	(998)
Related deferred tax	**557**	299
Total recognised gains and losses for the financial year	**(125)**	744
Prior year adjustment (Note 27)	**1**	–
Total recognised gains and losses since the last annual report	**(124)**	744

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2006 £000's	As restated (Note 27) 2005 £000's
Profit for the financial year	**1,672**	1,063
Movement in pension scheme liability	**(1,299)**	(779)
Dividends paid	**(1,305)**	(1,330)
Currency translation differences	**(498)**	380
Shares issued under employee share schemes	**79**	–
Increase in share based payment reserve	**26**	3
Purchase of treasury shares	**(302)**	(762)
Purchase of equity interest	**(40)**	–
Net reduction in shareholders' funds	**(1,667)**	(1,425)
Opening shareholders' funds as previously stated	**18,204**	19,632
Prior year adjustment	**1**	(2)
Opening shareholders' funds as restated	**18,205**	19,630
Closing shareholders' funds	**16,538**	18,205

(a) Accounting basis

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

The more important accounting policies, which have been applied consistently, with the exception of the changes in accounting policy caused by the adoption of new Accounting Standards (see Note 27), are set out below.

(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 2006 except for the accounts of Portmeirion Finance Limited which, for cash flow reasons associated with the date of payment of tax, have been prepared for the year ended 7th January 2007 and the accounts of Portmeirion Canada Inc. which have a year end of 30th June 2006. The Group accounts include interim financial information to 31st December 2006 for Portmeirion Finance Limited and the results of Portmeirion Canada Inc. for the year to 31st December 2006.

(c) Intangible fixed assets

Purchases of trade marks are included at cost and written off in equal annual instalments over 5 years, which is their estimated useful economic life. Provision is made for any impairment. 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.

(d) Tangible fixed assets

Tangible fixed assets are held at cost, net of depreciation less any provision for impairment. 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

(e) 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.

(f) 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. Provision is made for obsolescence as necessary.

(g) Turnover

Turnover represents the value of goods despatched by subsidiary undertakings to customers outside the Group and to its associated undertakings, exclusive of sales taxes, in the normal course of business, net of trade discounts.

(h) Research and development

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

(i) Purchase of own shares

Investment in own shares has been classified to other reserves - treasury shares.

(j) Taxation

Current tax including UK corporation tax and foreign tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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 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.

(k) 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.

(l) Group pension schemes

The Group operates a Group stakeholder pension plan in the UK. For this scheme the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

The defined benefit scheme previously operated by the Group closed on 5th April 1999. For this scheme the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other assets on the face of the balance sheet.

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.

(m) Share-based payment

The Group has applied the requirements of FRS 20 "Share-based Payment". In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7th November 2002 that were unvested as of 1st January 2005.

The Group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments.

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	**2006 £000's**	2005 £000's
United Kingdom	**8,457**	9,562
North America	**12,204**	10,864
European Union	**1,558**	1,542
Far East	**5,757**	5,186
Rest of the World	**446**	398
	28,422	27,552

Turnover by origin	**2006 Total sales £000's**	**2006 Inter-segment sales £000's**	**2006 Sales to third parties £000's**	2005 Total sales £000's	2005 Inter-segment sales £000's	2005 Sales to third parties £000's
United Kingdom	**23,301**	**(5,757)**	**17,544**	22,143	(5,123)	17,020
North America	**10,878**	**–**	**10,878**	10,193	–	10,193
Far East	**–**	**–**	**–**	367	(28)	339
	34,179	**(5,757)**	**28,422**	32,703	(5,151)	27,552

Operating profit/(loss) by origin	**2006 Before exceptional items £000's**	**2006 Operating exceptional items £000's**	**2006 Total £000's**	As restated 2005 Before exceptional items £000's	As restated 2005 Operating exceptional items £000's	As restated 2005 Total £000's
United Kingdom	**1,646**	**(277)**	**1,369**	1,342	(284)	1,058
North America	**1,029**	**–**	**1,029**	400	–	400
Far East	**–**	**–**	**–**	(235)	–	(235)
Operating profit/(loss)	**2,675**	**(277)**	**2,398**	1,507	(284)	1,223

Net assets by origin	**2006 £000's**	As restated 2005 £000's
United Kingdom	**11,926**	13,280
North America	**3,280**	3,512
Operating net assets	**15,206**	16,792
Unallocated net assets	**1,332**	1,413
Total net assets	**16,538**	18,205

Unallocated net assets consist of investments in associated undertakings of £1,332,000 (2005 - £1,413,000).

Details of investments in associated undertakings are provided in Note 13 on page 38.

2. Raw materials and operating costs

	2006 Before exceptional items £000's	2006 Operating exceptional items £000's	2006 Total £000's	As restated 2005 Before exceptional items £000's	As restated 2005 Operating exceptional items £000's	As restated 2005 Total £000's
Change in stocks of finished goods and work in progress	**(2,452)**	**–**	**(2,452)**	142	–	142
Raw materials and consumables	**9,757**	**–**	**9,757**	6,813	–	6,813
Other external charges	**6,299**	**–**	**6,299**	6,943	120	7,063
Staff costs (see Note 3)	**11,377**	**277**	**11,654**	11,195	164	11,359
Depreciation and other amounts written off tangible fixed assets	**744**	**–**	**744**	952	–	952
Amortisation of intellectual property	**22**	**–**	**22**	–	–	–
	25,747	**277**	**26,024**	26,045	284	26,329

Operating exceptional Items
The rationalisation and re-organisation of the business continued in the first half of 2006. The exceptional redundancy costs incurred as a result were £277,000. Exceptional costs of £284,000 relating to this re-organisation were incurred in 2005.

3. Staff numbers and costs

	2006 Number	2005 Number
The average number of persons employed during the year, including Directors:		
Operatives	**321**	350
Staff	**216**	221
	537	571

	£000's	£000's
Staff costs:		
Wages and salaries	**10,080**	9,770
Social security costs	**809**	819
Defined contribution and money purchase pension schemes costs	**765**	770
	11,654	11,359

The Company had no employees throughout 2006.

Details of individual Directors' remuneration, pension contributions and pension entitlements required by the Companies Act 1985 are shown in the Directors' Remuneration Report on pages 18 to 20. Details of Directors' current share options are shown in the Directors' Remuneration Report on page 19.

4. Operating profit

		2006 £000's	2005 £000's
Operating profit is stated after charging:			
Research and development		**188**	163
Auditors' remuneration	– audit	**58**	54
	– other services	**9**	11
Operating lease rentals	– land and buildings	**500**	421
	– plant and machinery	**37**	37

The audit fee for the Company was £2,000 (2005 – £2,000).

4. Operating profit (continued)

	2006 £000's	2005 £000's
The analysis of auditors remuneration is as follows:		
Fees payable for the audit of the Group's financial statements	**58**	54
Fees payable to the Group's auditors for other services:		
Taxation services	**–**	7
Audit of the Portmeirion Potteries Limited Retirement Benefit Scheme	**4**	4
Other services	**5**	–
Total fees payable for other services	**9**	11

5. Interest receivable and similar income

	2006 £000's	2005 £000's
Bank deposits	**229**	182
Other interest receivable	**2**	25
	231	207

6. Interest payable and similar charges

	2006 £000's	2005 £000's
Interest paid	**1**	2

7. Taxation on profit on ordinary activities

	2006 £000's	2005 £000's
United Kingdom corporation tax at 30% (2005 - 30%)	**513**	421
Adjustment to corporation tax in respect of prior years	**56**	(250)
Overseas taxation	**377**	171
Associated undertakings	**6**	23
Double tax relief	**(134)**	(72)
Current taxation	**818**	293
Deferred taxation:		
Deferred taxation origination and reversal of timing differences	**38**	20
Adjustment to deferred taxation in respect of prior years	**(30)**	4
Pension scheme	**86**	–
	912	317

7. Taxation on profit on ordinary activities (continued)

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% (2005 - 30%). The actual tax charge for the current and the previous year differs from the standard rate for the reasons set out in the following reconciliation:

	2006 £000's	As restated 2005 £000's
Profit on ordinary activities before taxation	**2,584**	1,380
Tax on profit on ordinary activities at standard rate of 30%	**775**	414
Factors affecting charge for the period:		
Fixed asset timing differences	**(84)**	74
Other timing differences	**46**	(194)
Expenses not deductible for tax purposes	**33**	116
Timing differences in relation to pension scheme	**(86)**	–
Unrelieved losses in foreign subsidiaries	**–**	159
Foreign tax charged at higher rates than UK standard rate	**91**	46
Adjustments to tax charge in respect of prior periods	**56**	(250)
Difference relating to associates tax charge	**(13)**	–
Double tax relief	**–**	(72)
Total actual amount of tax on profit on ordinary activities	**818**	293

8. 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 £1,672,000 (2005 - profit of £1,063,000 as restated) includes a loss of £133,000 (2005 - loss of £324,000) which is dealt with in the financial statements of the Company.

9. Dividends paid

	2006 £000's	2005 £000's
Final dividend of 9.95p per share paid in respect of the year ended 31st December 2005 (2005 – final dividend of 9.95p per share paid in respect of the year ended 31st December 2004)	**982**	999
Interim dividend of 3.3p per share paid in respect of the year ended 31st December 2006 (2005 – interim dividend of 3.3p per share paid in respect of the year ended 31st December 2005)	**323**	331
Total dividends paid in the year	**1,305**	1,330

The Directors recommend that a final dividend of 10.70p (2005 – 9.95p) per share be paid, making a total for the year of 14.00p (2005 – 13.25p) per share. The final dividend will be paid, subject to shareholders' approval, on 25th May 2007, to shareholders on the register at the close of business on 27th April 2007.

10. Earnings per share

Basic
The basic earnings per share are calculated by dividing the profit after taxation of £1,672,000 (2005 - £1,063,000 as restated) by the weighted average number of Ordinary shares in issue during the year of 9,818,990 (2005 - 10,057,467).

Diluted
The diluted earnings per share are calculated in accordance with Financial Reporting Standard 22. 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:

	Earnings £	2006 Weighted Number of Shares	Earnings per Share (Pence)	Earnings £	As restated 2005 Weighted Number of Shares	Earnings per Share (Pence)
Basic earnings per share	**1,672,000**	**9,818,990**	**17.03**	1,063,000	10,057,467	10.57
Effect of dilutive securities: employee share options	**–**	**131,701**	**–**	–	23,636	–
Diluted earnings per share	**1,672,000**	**9,950,691**	**16.80**	1,063,000	10,081,103	10.54

11. Intangible fixed assets - Group

	Intellectual Property £000's
Cost	
At 1st January 2006	–
Additions	524
At 31st December 2006	**524**
Amounts written off	
At 1st January 2006	–
Charge for the year	22
At 31st December 2006	**22**
Net book value	
At 31st December 2006	**502**
At 31st December 2005	–

On 13th October 2006 the Group purchased certain intellectual property from Pimpernel International Limited (in Administration) at a total cost of £524,000. This amount is being amortised evenly over its expected useful life of 5 years.

12. Tangible fixed assets - Group

	Land and buildings			
	Freehold £000's	Short leasehold £000's	Plant and vehicles £000's	Total £000's
Cost				
At 1st January 2006	5,188	510	11,482	17,180
Additions	6	1,451	302	1,759
Disposals	–	–	(167)	(167)
Exchange adjustments	(103)	(16)	(44)	(163)
At 31st December 2006	**5,091**	**1,945**	**11,573**	**18,609**
Depreciation				
At 1st January 2006	1,489	465	9,891	11,845
Charge for year	87	20	637	744
On disposals	–	–	(151)	(151)
Exchange adjustments	(25)	(14)	(33)	(72)
At 31st December 2006	**1,551**	**471**	**10,344**	**12,366**
Net book value				
At 31st December 2006	**3,540**	**1,474**	**1,229**	**6,243**
At 31st December 2005	3,699	45	1,591	5,335

13. Investments

	2006 £000's	2005 £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	**1,218**	1,152
Discount on acquisition	**(13)**	(13)
Impairment of investment in Furlong Mills Limited	**(553)**	(507)
	652	632
Portmeirion Canada Inc.		
100 common shares representing 50% of the issued share capital		
Share of net assets	**680**	781
	1,332	1,413

The decrease of £81,000 in the amount disclosed under investments represents the Group's share of profits in associated undertakings less a further £46,000 impairment in the investment in Furlong Mills Limited. Furlong Mills is a supplier of raw materials to the ceramic manufacturing industry and, in the light of continuing changes to that industry in the UK, an impairment review has been carried out which has resulted in an additional impairment.

	2006 £000's	2005 £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 2006 the Company had the following subsidiary and associated undertakings:

Subsidiary undertakings	*Country of operation and incorporation*	*Nature of business*
Portmeirion Potteries Limited	Great Britain	Pottery manufacturer
Portmeirion Finance Limited	Great Britain	Dormant
Portmeirion Enterprises Limited *	Great Britain	Intermediate holding company
Portmeirion Distribution Limited *	Great Britain	Dormant
Portmeirion Services Limited *	Great Britain	Dormant
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. The Group holds 100% of the share capital of all subsidiaries, 50% of the ordinary share capital of Portmeirion Canada Inc. and 27.58% of the ordinary share capital of Furlong Mills Limited

* Wholly owned by Portmeirion Potteries Limited.
** Wholly owned by Naugatuck Triangle Corporation.

14. Stocks

	Group 2006 £000's	Group 2005 £000's
Raw materials and other consumables	**1,007**	1,020
Work in progress	**1,574**	1,607
Finished goods	**5,771**	3,286
	8,352	5,913

15. Debtors

	Group 2006 £000's	Group 2005 £000's	Company 2006 £000's	Company 2005 £000's
Trade debtors	**3,791**	4,122	**–**	–
Loans owed by subsidiary undertakings falling due after more than one year	**–**	–	**10,911**	10,911
Amounts owed by associated undertakings	**84**	170	**–**	–
Corporation tax	**–**	321	**27**	–
Other debtors	**50**	183	**–**	–
Prepayments and accrued income	**542**	447	**–**	–
	4,467	5,243	**10,938**	10,911

16. Creditors: amounts falling due within one year

	Group 2006 £000's	Group As restated 2005 £000's	Company 2006 £000's	Company As restated 2005 £000's
Trade creditors	**4,338**	2,378	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**5,891**	4,185
Amounts owed to associated undertakings	**–**	13	**–**	–
Corporation tax	**17**	–	**–**	42
Other taxation and social security	**458**	510	**6**	6
Other creditors	**728**	179	**44**	46
	5,541	3,080	**5,941**	4,279

17. Provisions for liabilities

	£000's
Deferred taxation:	
Balance at 1st January 2006	43
Charge for year ended 31st December 2006	8
Balance at 31st December 2006	**51**

	2006 Provided in the accounts £000's	2006 Full potential £000's	2005 Provided in the accounts £000's	2005 Full potential £000's
Deferred taxation:				
Accelerated capital allowances	**226**	**226**	173	173
Short term timing differences	**(175)**	**(175)**	(130)	(130)
Deferred tax liability	**51**	**51**	43	43

No provision is required for deferred taxation in the accounts of the Company (2005 - £nil).
The above figures exclude taxation payable in the event of profits of overseas subsidiary undertakings being distributed.

18. Share capital

	2006 Number 000's	2006 £000's	2005 Number 000's	2005 £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	**10,463**	**523**	10,421	521

The market price of the Company's shares at 31st December 2006 was 257.5p per share. During the year the price ranged between 191.0p and 257.5p per share.

41,800 Ordinary shares of 5p each were allotted to four employees on 20th March 2006 for a total cash consideration of £79,350 being 28,800 at £1.875 per share and 13,000 at £1.95 per share. The shares were all allotted under the Group's 1997 Approved Company Share Option Plan. B.W.J. Phillips and A.W. Ralley were allotted 5,800 and 16,000 respectively.

18. Share capital (continued)

Options granted to Directors and employees to acquire Ordinary shares of 5p in the Company and still outstanding at 31st December 2006 were as follows:

	Number of shares	Exercise price per share	Dates on which exercisable Earliest	Latest
The Portmeirion 2002 Share Option Scheme	450,000	167.5p	25.03.2008	23.03.2009
The Portmeirion 2002 Share Option Scheme	190,000	222.5p	26.04.2009	24.04.2010

Options held by the Directors are shown in the Directors' Remuneration Report on page 19.

19. Share premium account and reserves

Group	Share premium account £000's	Treasury shares £000's	Share based payment reserve £000's	Profit and loss account £000's
As at 1st January 2006 as previously reported	4,580	(964)	–	14,067
Prior year adjustment (Note 27)	–	–	12	(11)
As at 1st January 2006 as restated	4,580	(964)	12	14,056
Profit for the financial year	–	–	–	1,672
Dividends paid	–	–	–	(1,305)
Exchange adjustment	–	–	–	(498)
Increase in share based payment reserve	–	–	26	–
Movement in pension scheme liability net of related deferred tax	–	–	–	(1,299)
Premium on shares issued under option scheme	77	–	–	–
Purchase of own shares	–	(302)	–	–
Purchase of equity interest	–	–	–	(40)
As at 31st December 2006	**4,657**	**(1,266)**	**38**	**12,586**

Profit and loss account as at 31st December 2006 excluding pension liability	16,555
Pension deficit net of related deferred tax	(3,969)
Profit and loss account as at 31st December 2006 including pension liability	**12,586**

The cumulative amount of goodwill written off at 31st December 2006 was £515,000 (2005 - £515,000).
The balance carried forward on the profit and loss account of £12,586,000 (2005 - £14,056,000 as restated) includes the Group's share of associated undertakings' post acquisition reserves of £1,810,000 (2005 - £1,845,000).

Company	Share premium account £000's	Other reserves £000's	Treasury shares £000's	Share based payment reserve £000's	Profit and loss account £000's
As at 1st January 2006 as previously reported	4,580	197	(964)	–	3,741
Prior year adjustment (Note 27)	–	–	–	12	–
As at 1st January 2006 as restated	4,580	197	(964)	12	3,741
Loss for the financial year	–	–	–	–	(133)
Dividends paid	–	–	–	–	(1,305)
Increase in share based payment reserve	–	–	–	26	–
Premium on shares issued under option scheme	77	–	–	–	–
Purchase of own shares	–	–	(302)	–	–
As at 31st December 2006	**4,657**	**197**	**(1,266)**	**38**	**2,303**

The Company made various purchases of its own shares throughout the year.
Overall 136,800 Ordinary shares of 5p each were acquired at a total cost of £302,000.

20. Reconciliation of operating profit to operating cash flows

	2006 £000's	As restated 2005 £000's
Operating profit	**2,398**	1,223
Depreciation	**744**	952
Amortisation of intangible fixed assets	**22**	–
Contributions to defined benefit pension scheme	**(348)**	(348)
Charge for share based payments	**26**	3
Exchange (loss)/gain	**(328)**	200
(Profit)/loss on sale of tangible fixed assets	**(16)**	21
(Increase)/decrease in stocks	**(2,439)**	141
Decrease in debtors	**382**	456
Increase in creditors	**2,290**	385
Net cash inflow from operating activities	**2,731**	3,033

All of the above relate to continuing operations.

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

	2006 £000's	2006 £000's	2005 £000's	2005 £000's
Returns on investments and servicing of finance				
Interest received	**304**		150	
Interest paid	**(1)**		(2)	
Net cash inflow from returns on investments and servicing of finance		**303**		148
Capital expenditure and financial investment				
Purchase of intangible fixed assets	**(524)**		–	
Purchase of tangible fixed assets	**(1,759)**		(458)	
Sale of tangible fixed assets	**32**		750	
Net cash (outflow)/inflow for capital expenditure and financial investments		**(2,251)**		292
Financing				
Issue of Ordinary shares under share option schemes	**79**		–	
Purchase of equity interest	**(40)**		–	
Purchase of treasury shares	**(302)**		(762)	
Net cash outflow from financing		**(263)**		(762)

22. Analysis of net funds

	At 1st January 2006 £000's	Cash flow £000's	At 31st December 2006 £000's
Cash in hand, at bank	1,136	42	**1,178**
Short term money market deposits	5,158	(1,133)	**4,025**
Total	6,294	(1,091)	**5,203**

Short term money market deposits include deposits of up to 30 days maturity and are included within cash in the Group's balance sheet.

23. Commitments

Capital commitments are as follows:

	2006 £000's	2005 £000's
Contracted for but not provided for	899	–

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

	2006		2005	
	Land and buildings £000's	Other £000's	Land and buildings £000's	Other £000's
On leases expiring:				
Within one year	73	–	51	–
In two to five years	157	–	233	–
After five years	416	–	110	–

24. Contingent liabilities

The Company has given an unlimited guarantee to HSBC Bank plc in respect of the bank borrowings of Portmeirion Potteries Limited and Portmeirion Finance Limited. At 31st December 2006 the gross borrowings of Portmeirion Potteries Limited and Portmeirion Finance Limited amounted to £nil (2005 - £nil).

25. Related party transactions

The transactions during the year with associated undertakings were:

	Purchases 2006 £000's	Purchases 2005 £000's	Sales 2006 £000's	Sales 2005 £000's
Portmeirion Canada Inc.	–	–	1,195	610
Furlong Mills Ltd	542	517	–	–

The outstanding balances at 31st December 2006, with associated undertakings were:

	Debtor 2006 £000's	Debtor 2005 £000's	Creditor 2006 £000's	Creditor 2005 £000's
Portmeirion Canada Inc.	81	170	–	–
Furlong Mills Ltd	3	–	–	13

No balances were owed or owing by associated undertakings to the Company.

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 any Director in the year, except B.W.J. Phillips who made purchases of £616 (2005 - £253) from the Group.

The Group made purchases totalling £97,000 from Buckley Jewellery Limited during the year on commercial terms (2005 – £21,000). R.J. Steele, Senior Non-executive Director, is non-executive chairman of Buckley Jewellery Limited and owns 1% of the company.

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

26. 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 2005. The main actuarial assumptions used in the valuation were:

* Price inflation of 2.75% 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 and 2.75% per annum on pensions earned after 6th April 1997.

At the date of the last valuation on 6th April 2005 the market value of the scheme assets was £15,222,000 and the scheme had a deficiency of £2,999,000.

The Group has applied FRS 17 "Retirement Benefits" in full.

The actuarial valuation of the scheme was updated as at 31st December 2006 and 31st December 2005 by qualified actuaries.

The major assumptions used by the actuaries were:

	2006	2005	2004
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	**3.25%**	2.75%	2.75%
Rate of revaluation of pensions in deferment	**3.25%**	2.75%	2.75%
Rate used to discount scheme liabilities	**5.10%**	4.75%	5.50%
Inflation assumption	**3.25%**	2.75%	2.75%

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

	2006		2005		2004	
	Expected rate of return	**Fair value £000's**	Expected rate of return	Fair value £000's	Expected rate of return	Fair value £000's
Equities	**6.60%**	**12,610**	6.00%	11,230	6.75%	9,583
Bonds	**4.60%**	**6,461**	4.50%	5,917	5.25%	5,016
Insured annuities	**5.10%**	**351**	4.75%	334	5.50%	274
Cash	**5.00%**	**12**	4.25%	55		–
Total fair value of assets		**19,434**		17,536		14,873
Present value of scheme liabilities		**(25,104)**		(21,636)		(18,242)
Deficit in the scheme		**(5,670)**		(4,100)		(3,369)
Deficit in the scheme		**(5,670)**		(4,100)		(3,369)
Related deferred tax		**1,701**		1,230		1,011
Net pension liability		**(3,969)**		(2,870)		(2,358)

Analysis of the amount charged to operating profit:

	2006 £000's	2005 £000's
Current service cost	**–**	–
Past service cost	**–**	–
	–	–

26. Pensions (continued)

Analysis of the amount charged to other finance costs:	**2006 £000's**	2005 £000's
Expected return on pension scheme assets	**957**	922
Interest on pension scheme liabilities	**(1,019)**	(1,003)
Amount charged to other finance costs	**(62)**	(81)

Analysis of the actuarial loss recognised in the statement of total recognised gains and losses:

	2006 £000's	2005 £000's
Actuarial return less expected return on pension scheme assets	**1,000**	1,828
Experience gains and losses arising on the scheme liabilities	**–**	311
Changes in assumptions underlying the present value of the scheme liabilities	**(2,856)**	(3,137)
Actuarial loss recognised in the statement of total recognised gains and losses	**(1,856)**	(998)

Movement in scheme deficit during the year:	**2006 £000's**	2005 £000's
Deficit as at 1st January	**(4,100)**	(3,369)
Movement in year: Employer contributions	**348**	348
Other finance costs	**(62)**	(81)
Actuarial loss	**(1,856)**	(998)
Shortfall as at 31st December	**(5,670)**	(4,100)

A history of the amounts recognised in the statement of total recognised gains and losses is as follows:

	2006 £000's	2005 £000's	2004 £000's	2003 £000's	2002 £000's
Actuarial return less expected return on pension scheme assets	**1,000**	1,828	675	572	(1,169)
Percentage of scheme assets	***5%***	*10%*	*5%*	*4%*	*(10%)*
Experience gains and losses arising on the scheme liabilities	**–**	311	47	(403)	(710)
Percentage of the present value of scheme liabilities	**–**	*1%*	–	*(3%)*	*(5%)*
Total actuarial loss recognised in statement of total recognised gains and losses	**(1,856)**	(998)	(1,572)	(391)	(2,546)
Percentage of the present value of scheme liabilities	***(7%)***	*(5%)*	*(9%)*	*(3%)*	*(18%)*

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 £78,000 at 31st December 2006 (2005 - £82,000).

27. Prior year adjustments

The Group has applied FRS 20 "Share Based Payment" for the first time. Under this reporting standard the profit and loss account is charged with the fair value of share based payments. In the case of Portmeirion this has resulted in fair values being established for share options and phantom share options which have been granted. The resulting prior year adjustments were as follows:

The closing shareholders' funds as at 31st December 2005 were restated as follows:

	£000's
Shareholders' funds at 31st December 2005 as previously stated	18,204
Adjustment to liability for phantom share options under FRS 20	1
Shareholders' funds at 31st December 2005 as restated	**18,205**

The opening shareholders' funds as at 1st January 2005 were restated as follows:	£000's
Shareholders' funds at 1st January 2005 as previously stated	19,632
Adjustment to liability for phantom share options under FRS 20	(2)
Shareholders' funds at 1st January 2005 as restated	**19,630**

Also under FRS 20 a reserve for share based payment has been created. The balance on this reserve as at 31st December 2005 was £12,000.

28. Financial instruments

Financial assets and liabilities

The additional narrative disclosures relating to financial risk management are included on page 14 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:

	2006 £000's	2006 £000's	2005 £000's	2005 £000's
Short term money market deposits:				
Sterling	**3,386**		4,600	
US Dollar	**639**		558	
		4,025		5,158
Cash at bank and in hand:				
Sterling	**338**		426	
US Dollar	**506**		534	
Euro	**332**		150	
Japanese Yen	**–**		22	
Canadian Dollar	**2**		4	
		1,178		1,136
		5,203		6,294

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

Currency exposures

As explained on page 14 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 2006.

28. Financial instruments (continued)

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:

	2006 Net carrying amount £000's	2006 Estimated fair value £000's	2005 Net carrying amount £000's	2005 Estimated fair value £000's
Cash at bank and in hand and short term money market deposits	**5,203**	**5,203**	6,294	6,294
Derivative financial instruments:				
Foreign exchange contracts	**–**	**105**	–	(131)

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.

Except as set out above the Group has no other 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.

The Group's unrecognised gains on financial instruments were £105,000 and these are expected to be realised in the next financial year (2005 – losses of £131,000 in the next financial year).

29. Share based payments

The Group operates share option schemes for senior managers. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the three trading days prior to the date of the grant. The vesting period is three years. If the options remain unexercised after a period of four years from the date of grant the options expire.

Details of the share options outstanding during the year are as follows:

	2006 Number of share options	2006 Weighted average exercise price £	2005 Number of share options	2005 Weighted average exercise price £
Outstanding as at 1st January	**610,000**	**1.730**	260,000	1.818
Granted during the year	**190,000**	**2.225**	450,000	1.675
Lapsed during the year	**(10,000)**	**1.924**	(100,000)	1.712
Surrendered during the year	**(108,200)**	**1.875**	–	–
Exercised during the year	**(41,800)**	**1.898**	–	–
Outstanding as at 31st December	**640,000**	**1.838**	610,000	1.730

The weighted average share price at the date of exercise for share options exercised during the period was £2.225. The options outstanding at 31st December 2006 had a weighted average exercise price of £1.838 and a weighted average remaining contractual life of 2.6 years. In 2006, options were granted on 25th April. The aggregate of the estimated fair value of those options is £44,736. In 2005, options were granted on 24th March. The aggregate of the estimated fair value of those options is £46,439.

The inputs into the Black-Scholes pricing model are as follows:

	2006	2005
Share price at date of grant	**£2.200**	£1.600
Exercise price	**£2.225**	£1.675
Expected volatility	**21%**	20%
Expected life	**3.5 years**	3.5 years
Risk-free rate	**4.65%**	4.80%
Expected dividend rate	**6.0%**	8.3%

Expected volatility was determined by calculating the historical volatility over the previous 3.5 years. The expected life used in the model assumes that the options will be exercised on average half way through the period during which they can be exercised.

During 2006 the Group paid £40,575 in cash to certain Directors in exchange for their surrender of options over 108,200 Ordinary shares issued under the 1997 Unapproved Share Option Scheme.

30. Subsequent events

On 12th January 2007 the Group completed the sale of a 4.8 acre freehold site in Stoke-on-Trent for £2,175,000 in cash. The sale will result in an exceptional gain of approximately £1,700,000 which will be recognised in the Group's financial statements for the year ending 31st December 2007.

The Group will continue to occupy the site at a peppercorn rent for the first six months of 2007.

CONSOLIDATED PROFIT AND LOSS ACCOUNT INFORMATION

Years ended 31st December

	2002 £000's	2003 £000's	As restated 2004 £000's	As restated 2005 £000's	**2006 £000's**
Turnover	30,712	28,512	27,686	27,552	**28,422**
Profit/(loss) on ordinary activities before taxation	2,923	2,003	(1,265)	1,380	**2,584**
Taxation	(870)	(697)	454	(317)	**(912)**
Profit/(loss) on ordinary activities after taxation	2,053	1,306	(811)	1,063	**1,672**
Earnings/(loss) per share	19.75p	12.54p	(7.84p)	10.57p	**17.03p**

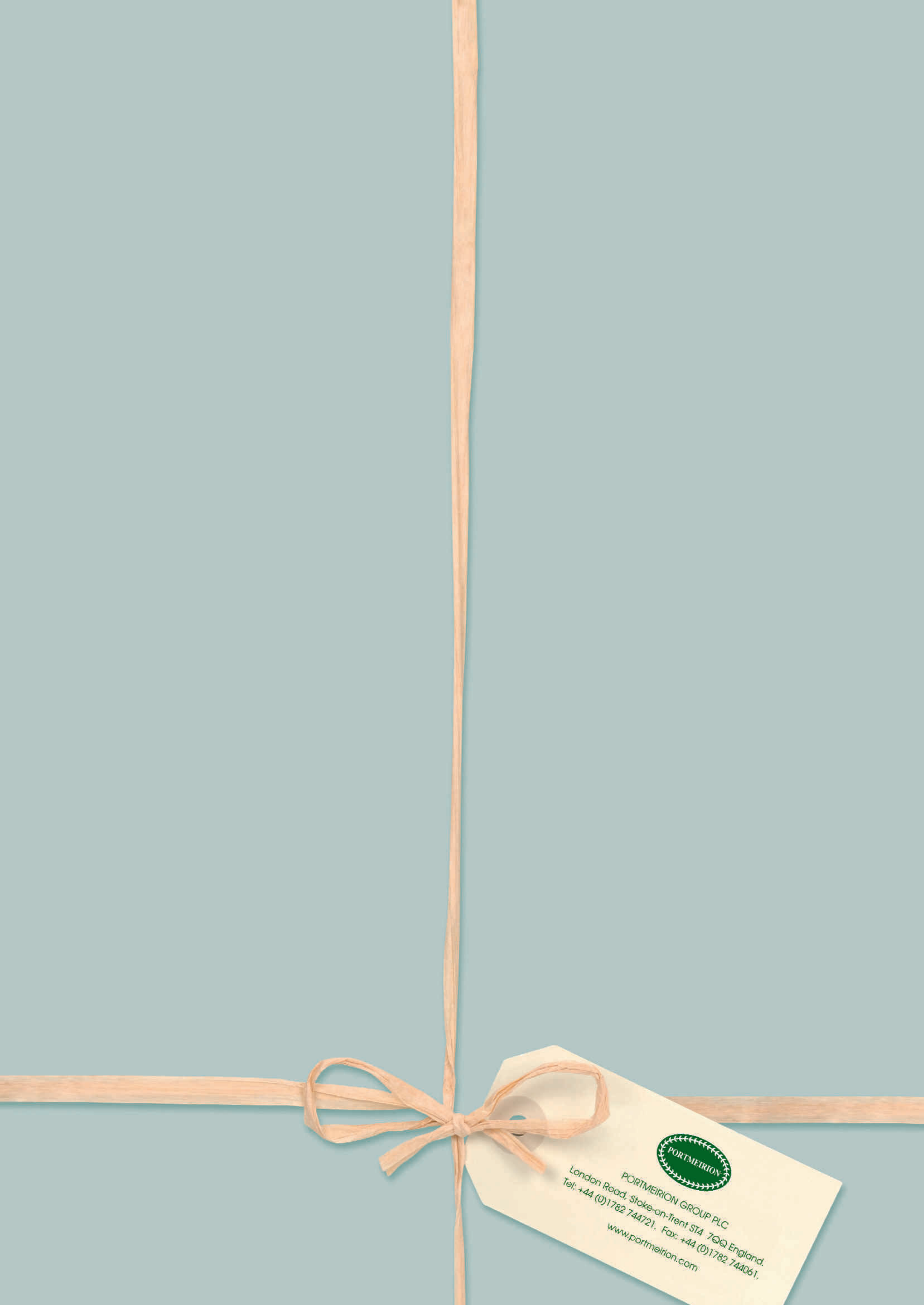
CONSOLIDATED BALANCE SHEET INFORMATION

At 31st December

	2002 £000's	2003 £000's	As restated 2004 £000's	As restated 2005 £000's	**2006 £000's**
Capital employed					
Fixed assets	9,752	9,332	7,823	6,748	**8,077**
Net current assets	14,856	14,939	14,186	14,370	**12,481**
Provisions for liabilities	(261)	(307)	(19)	(43)	**(51)**
Pension deficit net of related deferred tax	–	–	(2,358)	(2,870)	**(3,969)**
	24,347	23,964	19,632	18,205	**16,538**
Financed by					
Called up share capital	520	521	521	521	**523**
Share premium account and reserves	23,827	23,443	19,111	17,684	**16,015**
	24,347	23,964	19,632	18,205	**16,538**

financial calendar

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