

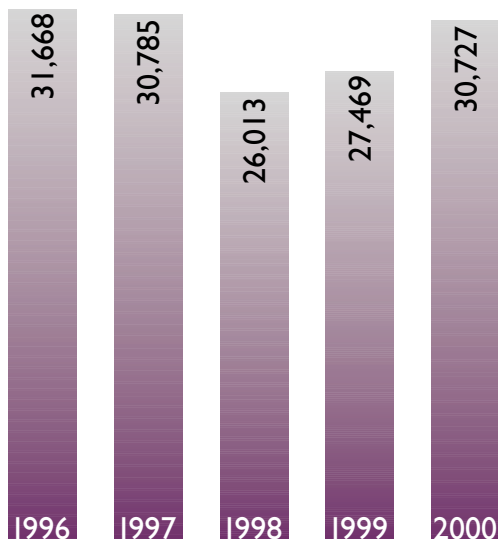
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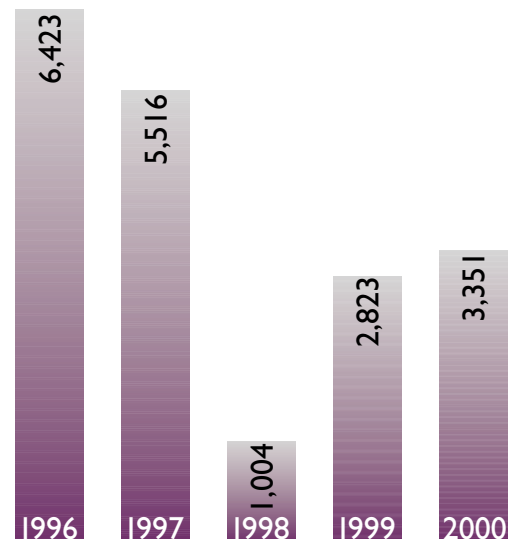
FINANCIAL HIGHLIGHTS

	2000 £000's	1999 £000's	Increase
Turnover	30,727	27,469	11.9%
Pre-tax profit	3,351	2,823	18.7%
Earnings per share – Basic	22.19p	18.50p	19.9%
Dividends per share	13.25p	13.25p	–

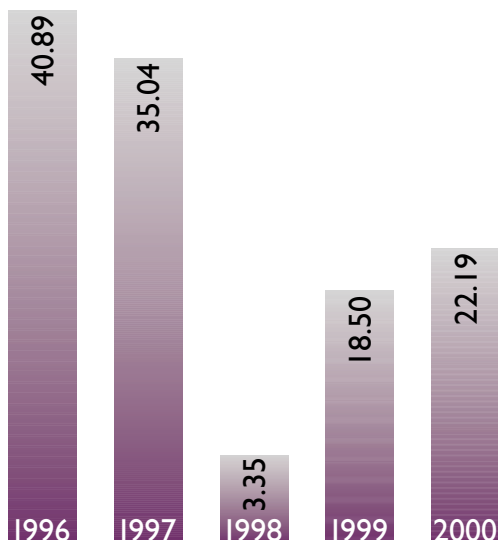
TURNOVER (£'000)



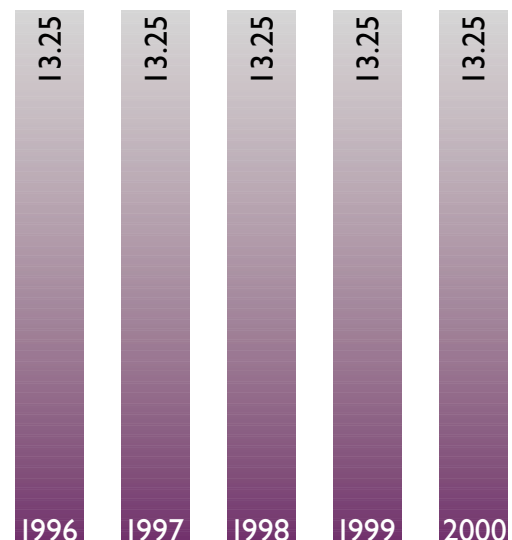
PRE-TAX PROFIT (£'000)



EARNINGS PER SHARE (p)



DIVIDENDS PER SHARE (p)



DIRECTORS AND ADVISERS

Board of Directors

Arthur W. Ralley
Kamrouz Farhadi BA MBA
Lawrence F. Bryan BSc
Euan S. Cooper-Willis MA
Janis Kong BSc
Alan M. Miles
Brett W.J. Phillips BSc ACA
Richard J. Steele BCOM FCA ATII
Barbara S. Thomas BA JD

Chairman
Chief Executive
President, Portmeirion USA
Non-executive Director
Non-executive Director
Sales and Marketing Director
Finance Director
Senior Non-executive Director
Non-executive Director

Joint Secretaries and Registered Office

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

Auditors

Deloitte & Touche
Colmore Gate
2 Colmore Row
Birmingham
B3 2BN

Bankers

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

Stockbrokers

Peel Hunt plc
62 Threadneedle Street
London
EC2R 8HP

Registrars

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

Solicitors

Pinsent Curtis Biddle
3 Colmore Circus
Birmingham
B4 6BH

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

CHAIRMAN'S STATEMENT



Sales for the year were £30.727m, an 11.9% growth over the previous year.

The profit before tax of £3.351m compares with £2.823m the previous year, an increase of 18.7%.

Earnings per share were 22.19p which compares with 18.50p the previous year.

The Board is recommending a final dividend of 9.95p bringing the total to 13.25p for the year. This is unchanged from 1999.

The dividend cover is 1.7.



During 2000, the steady development of the business continued in all departments. Sales in our two most important markets, the UK and the USA, have been good, increasing by 20% in the US and some 15% in the UK. We are concentrating considerable effort on Japan and the Far East, where we believe we have good prospects. To that end we have formed a wholly owned subsidiary in Japan. The climate is improving for exports to the European market and we expect gains there in the current year.

Our product development strategy is now delivering excellent results. Enhancements to our classic ranges, with the emphasis on the world famous Botanic Garden and Pomona patterns, have rejuvenated the offer, leading to significantly improved sales in both the UK and USA. Two new contemporary collections, Dawn and Dusk, were introduced during the first half of the year. Both ranges have achieved excellent sales, and enhanced our reputation for innovative and creative design. Two new collections of tableware and giftware, Beachcomber and Amabel, have been launched during February 2001. Our reputation for exciting new products has enabled us to achieve immediate acceptance and sales with a large number of our retail customers, both in the home market and overseas. Our product development plans will ensure that we maintain the momentum that has now been generated.



Our strategy of developing associated homeware and gift product ranges under the Portmeirion brand is paying handsome dividends. Sales of glassware and candles increased significantly. This has enabled us to sell into new retail outlets, and additional departments within department store groups.

This careful diversification is continuing with textiles and metal products. We believe the Portmeirion brand can encompass a broadening homeware and gift range that concentrates on design excellence and quality.

We are continuing to progress our plans for a Visitor Centre. This will comprise a new high technology factory extension, a tourist and visitor centre, and additional retail facilities. Subject to a final decision to proceed, we would anticipate spending some £10m over the next 3 years, of which £3m will be funded by grants from Government agencies and the EU. The process of investment in new plant and the application of "Lean Thinking" methods is helping to reduce loss and increase productivity, leading to lower costs and better service to customers.

We now have a strong management team, led by the Chief Executive, Kami Farhadi, and we have added to the executive management team where new skills were required. Given the pace of change and development in the Group, investment in management expertise will continue to be a priority. We have further strengthened the Board of Directors to meet the challenges before us, by appointing Janis Kong as a Non-executive Director. She is currently managing director of Gatwick Airport, part of BAA plc, and has wide business experience. Euan Cooper-Willis, our previous Chairman, continues to make a very valuable contribution in the role of Non-executive Director and consultant.

I believe we now have the corporate strategy and the management team to meet our aspirations for the growth and development of the Company.

I would like to thank all our employees for their contribution during last year.



Arthur Ralley
Chairman
16th March 2001



CHIEF EXECUTIVE'S REVIEW

In a highly competitive year for UK manufacturing, our product innovation programme has ensured not only sales and profit growth of 11.9% and 18.7% respectively, but also given birth to a new category of "Transitional Home Dining" using a variety of materials.

Sales of new products for 2000 across all of our ranges constituted some 15% of total turnover, all products having been developed in-house. I am also very pleased to report that our classic ranges of "Botanic Garden", "Pomona" and "The Holly and the Ivy" all showed good increases in our two major markets of UK and USA, with "Botanic Garden", the original creator of the category, once again registering as the highest selling "casual dining" pattern by US retailers in 2000. Continuing efforts by our Canadian associate have resulted in increases of 80% in our sales to them and a doubling of their sales to retailers.

During the year we received several awards which attest to the growing brand awareness of our new products. They were:

- AIS (Associated Independent Stores) – Tabletop Supplier of the Year Award 2000
- The Giftware Association – Gift of the Year Award for Decorative Home Accessories (Dawn & Dusk)
- The Specialist China and Glass Retailers Guild – Best Casual Tableware (Dawn & Dusk)
- Excellence in Housewares Awards 2000 – Top of the Table Award (Dawn & Dusk)
- Advance Staffordshire – Learning Award 2000

This recognition is leading us to new channels of distribution which previously were unavailable to us.

Operations

Changes within our UK manufacturing are resulting in improvement to margins. We are, as one of our lean manufacturing initiatives, targeting our factories to achieve ten stock turns of finished goods per year by the end of 2001.

During 2000 we began the process of reorganising our manufacturing plants. Our objective is to improve efficiency and margins, but also, in response to our customer needs, improve flexibility and reduce lead times. Fast and accurate replenishment will be the route to future success. These changes are being implemented during 2001 and 2002 and they are expected to have a very positive effect on the Company's profitability.

2001 saw the launch of two new patterns, "Beachcomber" and "Amabel". Both patterns have been favourably received by retailers. As demand for our products continues to grow we are expanding our manufacturing into our new 5-acre site purchased in August 1999. Capital investment on this site was some £100,000 during 2000, and we have a planned increase of investment for this site during 2001. Our total capital investment in 2000 was just over £1 million.

I thank all employees for their contributions over the year, especially everyone who has been able to become actively involved in the departments leading the changes needed to compete in today's environment and succeed in tomorrow's highly competitive climate.



Kami Farhadi
Chief Executive
16th March 2001



amabel



botanic garden —
satin white giftware collection

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report together with the audited financial statements of the Company and its subsidiary undertakings for the year ended 31st December 2000.

Principal activity

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

Business review

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

Results

The results for the year are set out on page 19. The profit for the year added to reserves amounted to £928,000 (1999 – £545,000).

Dividend

On 2nd October 2000 an interim dividend of 3.3p (1999 – 3.3p) per share was paid on the Ordinary share capital. The Directors recommend that a final dividend of 9.95p per share be paid (1999 – 9.95p), making a total for the year of 13.25p (1999 – 13.25p) per share. The final dividend will be paid, subject to shareholders' approval, on 1st June 2001, to shareholders on the register at the close of business on 11th May 2001.

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 2000 or at date of resignation 5p Ordinary shares			As at 31st December 1999 or at date of appointment 5p Ordinary shares		
	Beneficial	Non- beneficial	Options	Beneficial	Non- beneficial	Options
L. F. Bryan (appointed 01.01.00)	173,000	–	8,000	38,000	–	8,000
E. S. Cooper-Willis	1,746,200	378,000	–	1,810,000	378,000	–
K. Farhadi	1,552,750	–	62,000	1,552,750	–	62,000
J. Kong (appointed 26.05.00)	–	–	–	–	–	–
A. M. Miles	–	–	29,500	–	–	29,500
B. W. J. Phillips	2,455	–	21,050	2,455	–	21,050
A. W. Ralley	20,000	–	–	5,000	–	–
R. J. Steele	10,000	–	–	–	–	–
B. S. Thomas (appointed 01.03.00)	–	–	–	–	–	–
A. J. Philpott (retired 26.05.00)	16,000	–	–	8,000	–	–

L. F. Bryan made six purchases of Ordinary shares in the Company as follows: 7th April 2000, 10,000 shares at 150p per share; 1st June 2000, 10,000 shares at 170p per share; 13th June 2000, 38,000 shares at 175p per share; 14th June 2000, 2,000 shares at 175p per share; 1st September 2000, 25,000 shares at 175p per share; and 13th November 2000, 50,000 shares at 165p per share.

On 31st August 2000, E. S. Cooper-Willis sold 3,800 Ordinary shares in the Company at a price of 182.5p per share and S.C. Williams-Ellis, his wife, sold 35,000 shares in the Company at a price of 175p per share. She sold a further 25,000 shares in the Company at the same price on 1st September 2000.

A. W. Ralley made three purchases of Ordinary shares in the Company as follows: 17th March 2000, 7,000 shares at 140p per share; 13th June 2000, 5,000 shares at 175p per share; and 31st August 2000, 3,000 shares at 182.5p per share.

On 7th June 2000, R. J. Steele purchased 10,000 Ordinary shares in the Company for the benefit of his pension fund at a price of 180p per share.

On 17th March 2000, A. J. Philpott acquired 8,000 Ordinary shares in the Company for the benefit of his Personal Equity Plan at a price of 133p per share.

There has been no change in the interests of the Directors during the period from 1st January 2001 to 16th March 2001.

Details of transactions with Directors and other related parties are to be found in Note 24 on pages 35 and 36.

REPORT OF THE DIRECTORS (continued)

Directors proposed for re-election

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

A. W. Ralley

Arthur Ralley, aged 58, is the Chairman. His early career with the Littlewoods Organisation in stores and the mail-order divisions included several years as buying & merchandising director. He joined Storehouse plc as buying director of Mothercare UK Ltd and subsequently became a director of the international business. From 1992 to 1998 he was the managing director of Frame Express, after effecting a management buy-in. He became a Non-executive Director of Portmeirion Group PLC in 1996 and Executive Acting Chairman in January 2000. He took over as Chairman upon the retirement of E.S. Cooper-Willis from the role in May 2000. His contract expires on completion of one year's notice.

A.M. Miles

Alan Miles, aged 47, is the Sales & Marketing Director. His business experience covers a broad spectrum of activity including manufacturing, merchandising, retailing, sales and marketing. International experience has been gained not only through the use of agents and distributors but also through the forming of strategic alliances with trading partners in a number of markets worldwide. Since joining Portmeirion in 1996, he has revised the Sales and Marketing policies, revitalising the Portmeirion brand name. His contract expires on completion of one year's notice.

J. Kong

Janis Kong, aged 50, was appointed as a Non-executive Director on 26th May 2000. She is managing director of Gatwick Airport and her career with BAA (formerly British Airports Authority) began in 1973. In April 1994 she was appointed operations director at Gatwick Airport, and was promoted to her current role in 1997. Janis is also chairman of Southampton International Airport and is a member of the BAA Airports Board. She is a founder member of the South East England Development Agency, and holds an honorary doctorate with the Open University. Her contract expires on completion of one year's notice.

Directors' Contracts

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

Non-executive Directors

R. J. Steele - Senior Non-executive Director

Dick Steele is a Chartered Accountant and a Member of the Institute of Taxation.

He is non-executive chairman of HobbyCraft, Colab, Buckley Jewellery and De Bradelei.

J. Kong

See above.

B.S. Thomas

Barbara Thomas is a lawyer, international banker and entrepreneur.

She is executive chairman of Net Investor plc, non-executive chairman of Axon Group plc and deputy chairman of Friends' Provident Life Office as well as being a director of several other public and private companies. She is a former Commissioner of the United States Securities and Exchange Commission.

Employees involvement

The Group recognises the importance of good communications with its employees and considers that the most effective form of communication regarding its activities, performance and plans is by way of informal daily discussions between management and other employees. During 2000, to complement these discussions, the Company has continued communicating information from Board level to all employees on a monthly basis via a programme of team briefing. A profit related bonus scheme is operated to encourage the involvement of employees in the Group's performance. As part of the Group's employee development programme, the Directors have committed to the achievement of the Investors in People standard.

REPORT OF THE DIRECTORS (continued)

Employment of disabled persons

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

Substantial shareholdings

In addition to the Directors' interests notified above, the Company had been notified of the following beneficial interests in 3% or more of its issued share capital as at 16th March 2001:

	Number of shares	Percentage
Fortress Finance Investment Inc	720,000	6.93%
Saffery Champness Trust Corporation	414,753	3.99%

Saffery Champness Trust Corporation is trustee of trusts for beneficiaries including members of the Cooper-Willis family.

Allotment of shares

By law, shareholders' approval is required for the allotment of shares. Approval may either be given for particular allotments or by a general authority. The Directors were given a general authority to allot shares at the Annual General Meeting on 26th May 2000 in respect of £173,153 of share capital. This authority expires on 25th May 2005. Approval is being sought in Resolution 5 at the Annual General Meeting in respect of a general authority to allot up to £173,153 (being less than a third of the present issued share capital), to expire on 24th May 2006.

Shareholders' approval is also required for the issue of shares wholly for cash otherwise than in accordance with certain statutory pre-emption provisions contained in the Companies Act 1985. Approval is being sought in Resolution 6 at the Annual General Meeting to renew authorities in respect of the allotment pursuant to a rights issue of all the £173,153 of share capital whose allotment is authorised, the allotment of Ordinary shares pursuant to the terms of the employee share schemes and of up to £25,973 of share capital (being less than five per cent of the issued share capital of the Company) otherwise than on a rights issue. The Directors intend to propose that these authorities be renewed annually.

Authority for market purchase of own shares

Resolution 7 at the Annual General Meeting is a special resolution which will provide the authority for the Company to make market purchases of its own shares. Further details are given in the Notice of Meeting. The Directors intend to propose that this authority be renewed annually.

Financial Instruments

The Group's net funds at 31st December 2000 were £7.1 million (1999 – £7.6 million). The Group's policy is to place surplus funds on short-term deposit with highly rated institutions. The Group has no bank borrowings.

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

The most significant exposure to foreign currency arises from the US dollar sales made by the UK subsidiary to the US subsidiary. Forward contracts are in place to cover approximately 60% of the expected US dollar receipts for 2001.

The Group enters into derivative transactions only to manage exposure arising from its underlying business. No speculative derivative contracts are entered into. Note 26 on page 37 provides further disclosure of the Group's financial instruments.

The Euro

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

REPORT OF THE DIRECTORS (continued)

Creditor payment policy

Payment terms are agreed with each of the Company's major suppliers. The Company abides by these terms provided that the supplier also complies with the agreed terms and conditions. The policy for other suppliers is generally to make payment by the end of the month following receipt of a valid invoice. All payment terms are stated at the time orders are placed. The number of days purchases represented by the Group's trade creditors at 31st December 2000 was 37 (1999 – 39). The Company has no trade creditors.

Charitable and political contributions

Contributions to various charities in the form of goods during the year amounted to £10,460 (1999 – £16,426) at cost. There were no political contributions during the year.

Company status

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

Auditors

Deloitte & Touche have expressed their willingness to continue in office as auditors.

A resolution for their re-appointment is to be proposed at the forthcoming Annual General Meeting.

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

E. R. Cook

Secretary

16th March 2001

REMUNERATION REPORT

General

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

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

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

	Salary & fees £	Benefits £	Bonus £	Pension Contri- butions £	2000 Total £	1999 Total £
<i>Executive</i>						
A. W. Ralley	85,000	–	4,250	–	89,250	8,500
K. Farhadi	133,000	597	6,650	17,745	157,992	125,208
L. F. Bryan (1)	112,543	676	34,888	11,952	160,059	–
A. M. Miles	82,000	350	4,100	7,695	94,145	88,185
B. W. J. Phillips	82,200	6,887	4,432	9,427	102,946	92,110
<i>Non-executive</i>						
E. S. Cooper-Willis (2)	67,091	483	–	–	67,574	70,068
J. Kong (3)	8,750	–	–	–	8,750	–
A. J. Philpott (4)	6,250	–	–	–	6,250	8,500
R. J. Steele (5)	15,000	–	–	–	15,000	5,205
B. S. Thomas (6)	12,500	–	–	–	12,500	–
Total	604,334	8,993	54,320	46,819	714,466	397,776

Notes

- (1) L. F. Bryan was appointed on 1st January 2000.
- (2) E.S. Cooper-Willis was an Executive Director until his retirement as Chairman on 26th May 2000.
- (3) The 2000 figures for J. Kong relate to the period from her appointment on 26th May 2000.
- (4) The 2000 figures for A. J. Philpott relate to the period prior to his retirement on 26th May 2000.
- (5) The remuneration for R. J. Steele was made to Adsum Limited in respect of his services. The 1999 figure relates to the period from his appointment on 20th May 1999.
- (6) The remuneration for B. S. Thomas was made to BT Consulting in respect of her services. The 2000 figures relate to the period from her appointment on 1st March 2000.

The benefits shown above arise from the provision of company cars, life assurance, motor insurance, private medical insurance and loans. Details of the loans are given in Note 24 on page 36.

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

REMUNERATION REPORT (continued)

Annual bonus scheme

The Group operates an annual bonus scheme for Executive Directors. Annual bonuses are payable if target profits are achieved. The targets and bonus payable are reviewed annually by the Remuneration Committee.

Share option scheme

The Company operates two discretionary share option schemes for Executive Directors and all employees. Options issued under these schemes may be exercised between three and four years after the date of grant. Details of existing options can be found in Note 17 to the financial statements on pages 32 and 33 and in the Report of the Directors.

Long-term incentive schemes

The Company does not operate any long-term incentive schemes.

Pension scheme

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

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

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

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

CORPORATE GOVERNANCE STATEMENT

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

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

APPLIANCE STATEMENT

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

Directors

The Company is controlled by the Board of Directors, comprising five Executive and four Non-executive Directors. The Board considers that three of the four Non-executive Directors bring an independent judgement to bear. The fourth, E. S. Cooper-Willis, was previously Executive Chairman.

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

The Board meets at least six times each year and has a formal schedule of matters reserved to it. It is responsible for overall Group strategy, approval of major capital expenditure projects and consideration of significant financial matters. It monitors the exposure to key business risks and reviews the strategic direction of all trading subsidiaries, their annual budgets, their performance in relation to those budgets and their capital expenditure. In addition to ongoing review, minutes of the meetings of the Directors of the main UK subsidiary are circulated to the Group Board of Directors. During the year the Executive Directors have taken part in strategic and developmental training programmes. All Directors except for the Chief Executive are subject to retirement by rotation at regular intervals in accordance with the Company's Articles of Association. Following the principles of the Combined Code the Chief Executive retired for re-election at the 1999 Annual General Meeting, and intends to do so every third year.

The current composition of the Board of Directors and the standing Board Committees and the number of meetings held during the year are set out below. R. J. Steele and E. S. Cooper-Willis have been members of all three Committees during their tenure as Non-executive Directors: J. Kong and B. S. Thomas joined the Committees upon their appointments to the Board.

Board of Directors	6	Nomination Committee	2
A. W. Ralley (Chairman)		A. W. Ralley (chairman)	
K. Farhadi (Chief Executive)		E.S. Cooper-Willis	
L. F. Bryan		K. Farhadi	
E. S. Cooper-Willis (Non-executive)		J. Kong	
J. Kong (Non-executive)		R. J. Steele	
A. M. Miles		B. S. Thomas	
B. W. J. Phillips			
R. J. Steele (Senior Non-executive)			
B. S. Thomas (Non-executive)			
Audit Committee	4	Remuneration Committee	4
R. J. Steele (chairman)		R. J. Steele (chairman)	
E.S. Cooper-Willis		E.S. Cooper-Willis	
J. Kong		J. Kong	
B. S. Thomas		B. S. Thomas	

The Nomination Committee makes recommendations to the Board on all new Board appointments. It meets at least once a year and also considers the re-election of directors retiring by rotation.

Directors' Remuneration

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. The remuneration of the Non-executive Directors is determined by the Executive Directors.

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

Relations with Shareholders

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

Accountability and Audit

Financial Reporting

The Chief Executive's Review on page 6 summarises the Group's performance in the year. The Board uses this, together with the Chairman's Statement on pages 4 and 5 and the Report of the Directors on pages 9 to 12, to present a balanced and understandable assessment of the Group's position and prospects. The respective responsibilities of the Directors and auditors in this area are described on pages 17 and 18.

Internal Control

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

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group was put in place progressively during the second half of 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. During the preceding part of the financial year procedures were being established to meet the requirements for the system of internal control.

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

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

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

The Group's significant risks, together with the relevant control and monitoring procedures, are subject to regular review to enable the Board to assess the effectiveness of the system of internal control. The 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.

CORPORATE GOVERNANCE STATEMENT (continued)

Going Concern

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

Audit Committee and Auditors

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

COMPLIANCE STATEMENT

The Listing Rules require the Board to report on compliance, throughout the accounting period, with the forty-five Code Provisions. The Company has complied with the Provisions set out in Section I of the Combined Code throughout the year ended 31st December 2000.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

REPORT OF THE AUDITORS

To the Members of Portmeirion Group PLC

We have audited the financial statements on pages 19 to 37 which have been prepared under the accounting policies set out on pages 24 and 25.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report, including as described on page 17 preparation of the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the UK Listing Authority, and by our profession's ethical guidance.

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

We review whether the corporate governance statement on page 17 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the UK Listing Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all the risks and controls or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, 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.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Colmore Gate
2 Colmore Row
Birmingham B3 2BN

16th March 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December 2000

	Notes	2000 £000's	1999 £000's
Turnover – continuing operations	1	30,727	27,469
Raw materials and operating costs	2	(27,958)	(25,110)
Operating profit – continuing operations	4	2,769	2,359
Share of profit of associated undertakings		254	133
Interest receivable and similar income	5	328	332
Interest payable and similar charges	6	–	(1)
Profit on ordinary activities before taxation		3,351	2,823
Taxation on profit on ordinary activities	7	(1,046)	(901)
Profit on ordinary activities after taxation being the profit for the financial year	8	2,305	1,922
Dividends	9	(1,377)	(1,377)
Retained profit for the financial year	18	928	545
Earnings per share	10	22.19p	18.50p
Diluted earnings per share	10	22.17p	18.49p
Dividends per share	9	13.25p	13.25p

Movements on reserves during the year are shown in Note 18 on page 33.

CONSOLIDATED BALANCE SHEET

As at 31st December 2000

	Notes	2000		1999	
		£000's	£000's	£000's	£000's
Fixed assets					
Tangible assets	11		9,119		9,441
Investments	12		1,262		1,088
			<u>10,381</u>		<u>10,529</u>
Current assets					
Stocks	13	6,574		6,176	
Debtors	14	5,978		4,443	
Cash at bank and in hand		7,138		7,573	
		<u>19,690</u>		<u>18,192</u>	
Creditors: amounts falling due within one year	15	<u>(4,950)</u>		<u>(4,609)</u>	
Net current assets			<u>14,740</u>		<u>13,583</u>
Net assets			<u>25,121</u>		<u>24,112</u>
Capital and reserves					
Called up share capital	17		519		519
Share premium account	18		4,536		4,536
Profit and loss account	18		20,066		19,057
Equity shareholders' funds			<u>25,121</u>		<u>24,112</u>

These financial statements were approved by the Board of Directors and signed on 16th March 2001 on its behalf by:

K. Farhadi
B. W. J. Phillips

} Directors

PARENT COMPANY BALANCE SHEET

As at 31st December 2000

	Notes	2000		1999	
		£000's	£000's	£000's	£000's
Fixed assets					
Investment in subsidiary undertakings	12		1,455		1,455
Current assets					
Debtors – loans owed by subsidiary undertakings falling due after more than one year		10,911		10,911	
Debtors – amounts owed by subsidiary undertakings		1,048		2,462	
Other debtors		1		1	
		<u>11,960</u>		<u>13,374</u>	
Creditors: amounts falling due within one year	15	<u>(1,076)</u>		<u>(1,076)</u>	
Net current assets			<u>10,884</u>		<u>12,298</u>
Net assets			<u>12,339</u>		<u>13,753</u>
Capital and reserves					
Called up share capital	17		519		519
Share premium account	18		4,536		4,536
Other reserves	18		197		197
Profit and loss account	18		7,087		8,501
Equity shareholders' funds			<u>12,339</u>		<u>13,753</u>

These financial statements were approved by the Board of Directors and signed on 16th March 2001 on its behalf by:

K. Farhadi
B. W. J. Phillips

} Directors

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2000

	Notes	2000 £000's	1999 £000's
Cash flow from operating activities	19	2,255	2,435
Dividends received from associates		118	160
Returns on investments and servicing of finance	20	315	327
Taxation		(826)	(903)
Capital expenditure and financial investment	20	(920)	(1,271)
Equity dividends paid		(1,377)	(1,377)
Cash outflow before use of liquid resources and financing		(435)	(629)
Management of liquid resources		(1,125)	(4,513)
Decrease in cash in the year		(1,560)	(5,142)
Reconciliation of net cash flow to movement in net funds (Note 21)			
Decrease in cash in the year		(1,560)	(5,142)
Cash outflow from increase in liquid resources		1,125	4,513
Net funds at 1st January		7,573	8,202
Net funds at 31st December		7,138	7,573

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

For the year ended 31st December 2000

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2000 £000's	1999 £000's
Profit for the financial year	2,305	1,922
Currency translation differences	<u>81</u>	<u>112</u>
Total recognised gains and losses for the financial year	<u><u>2,386</u></u>	<u><u>2,034</u></u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2000 £000's	1999 £000's
Profit for the financial year	2,305	1,922
Dividends	(1,377)	(1,377)
Currency translation differences	<u>81</u>	<u>112</u>
Net addition to shareholders' funds	1,009	657
Opening shareholders' funds	<u>24,112</u>	<u>23,455</u>
Closing shareholders' funds	<u><u>25,121</u></u>	<u><u>24,112</u></u>

ACCOUNTING POLICIES

(a) Accounting basis

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. During the year the Group has adopted FRS15 "Tangible Fixed Assets". This has had no impact on the Group's reported results.

(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 2000 except for the accounts of Portmeirion Finance Limited which for cashflow reasons associated with the date of payment of tax have been prepared for the year ended 7th January 2001 and the accounts of Portmeirion Canada Inc. which have a year end of 30th June 2000. The Group accounts include interim financial information to 31st December 2000 for Portmeirion Finance Limited and the results of Portmeirion Canada Inc. for the eighteen month period to 31st December 2000.

Where a subsidiary undertaking is acquired during the year its results are included from the effective date of acquisition. Prior to the introduction of FRS 10 "Goodwill and Intangible Assets" any goodwill arising as a result of an acquisition was charged against reserves as a matter of accounting policy. This goodwill will be charged or credited to the profit and loss account on subsequent disposal of the business to which it related.

(c) Depreciation

(i) *Tangible fixed assets*

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

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

(ii) *Leased assets*

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

(d) Investments

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

(e) Stock

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

(f) Turnover

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

(g) Research and development

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

ACCOUNTING POLICIES (continued)

(h) Taxation

Taxation charged against profits is the estimated liability for the year calculated in accordance with the legislation and the rates currently ruling in the different countries in which the Group operates. Provision is made for deferred taxation in respect of timing differences to the extent that a liability may become payable in the foreseeable future.

(i) Translation of foreign currencies

(i) *Trading*

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

(ii) *Overseas subsidiary undertakings*

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

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

(iii) *Overseas associated undertakings*

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

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

(j) Group pension schemes

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

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

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

NOTES TO THE ACCOUNTS

I. 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:

<i>Turnover by destination</i>	2000 £000's	1999 £000's
United Kingdom	11,941	10,419
North America	14,429	12,023
European Union	2,501	2,557
Far East	1,155	1,473
Rest of the World	701	997
	<u>30,727</u>	<u>27,469</u>

<i>Turnover by origin</i>	2000 Total sales £000's	2000 Inter-segment sales £000's	Sales to third parties £000's	1999 Total sales £000's	1999 Inter-segment sales £000's	Sales to third parties £000's
United Kingdom	25,250	(8,094)	17,156	22,500	(6,233)	16,267
North America	13,543	–	13,543	11,202	–	11,202
Far East	28	–	28	–	–	–
	<u>38,821</u>	<u>(8,094)</u>	<u>30,727</u>	<u>33,702</u>	<u>(6,233)</u>	<u>27,469</u>

<i>Operating profit by origin</i>	2000 £000's	1999 £000's
United Kingdom	2,233	2,153
North America	559	206
Far East	(23)	–
Operating profit	<u>2,769</u>	<u>2,359</u>

<i>Net assets by origin</i>	2000	1999
United Kingdom	20,088	19,134
North America	4,705	4,924
Far East	100	–
Operating net assets	<u>24,893</u>	<u>24,058</u>
Unallocated net assets	<u>228</u>	<u>54</u>
Total net assets	<u>25,121</u>	<u>24,112</u>

Unallocated net assets consist of dividends payable of £1,034,000 (1999 – £1,034,000) and investments in associated undertakings of £1,262,000 (1999 – £1,088,000).

Details of investments in associated undertakings are provided in Note 12 on page 30.

NOTES TO THE ACCOUNTS (continued)

2. Raw materials and operating costs

	2000 £000's	1999 £000's
Change in stocks of finished goods and work in progress	(702)	(645)
Raw materials and consumables	7,465	6,505
Other external charges	8,579	7,776
Staff costs (see Note 3)	11,382	10,292
Depreciation of tangible fixed assets	1,234	1,182
	<u>27,958</u>	<u>25,110</u>

3. Staff numbers and costs

	2000 Number	1999 Number
<i>The average number of persons employed during the year, including Directors:</i>		
Operatives	433	421
Staff	227	209
	<u>660</u>	<u>630</u>
<i>Staff costs:</i>		
	£000's	£000's
Wages and salaries	9,871	8,877
Social security costs	814	697
Defined benefit pension scheme costs	–	241
Defined contribution and money purchase pension scheme costs	697	477
	<u>11,382</u>	<u>10,292</u>

Details of individual Directors' remuneration, pension contributions and pension entitlements required by the Companies Act 1985 and those specified for audit by the UK Listing Authority are shown in the Remuneration Report on pages 13 and 14. Details of Directors' current share options are given in Note 17 on pages 32 and 33.

4. Operating profit

	2000 £000's	1999 £000's
Operating profit is stated after charging:		
Research and development	288	264
Auditors' remuneration – audit	34	28
– other services	88	30
Operating lease rentals – property	290	398
	<u>290</u>	<u>398</u>

The audit fee for the Company was £2,000 (1999 – £2,000).

NOTES TO THE ACCOUNTS (continued)

5. Interest receivable and similar income

	2000 £000's	1999 £000's
Bank deposits	<u>328</u>	<u>332</u>

6. Interest payable and similar charges

	2000 £000's	1999 £000's
Bank loans, overdrafts and other loans repayable within five years	<u>-</u>	<u>1</u>

7. Taxation on profit on ordinary activities

	2000 £000's	1999 £000's
United Kingdom Corporation tax at 30% (1999 – 30.25%)	1,146	722
Double taxation relief	(163)	(65)
Overseas taxation	165	91
Associated undertakings	95	44
Deferred taxation	<u>(116)</u>	<u>156</u>
	1,127	948
Adjustments in respect of prior years:		
Corporation tax	(55)	(2)
Deferred taxation	<u>(26)</u>	<u>(45)</u>
	<u>1,046</u>	<u>901</u>

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 £2,305,000 (1999 - £1,922,000) includes a loss of £37,000 (1999 - £nil) which is dealt with in the financial statements of the Parent Company.

NOTES TO THE ACCOUNTS (continued)

9. Dividends

	2000 £000's	1999 £000's
Interim 3.3p per share paid (1999 – 3.3p)	343	343
Final 9.95p per share proposed (1999 – 9.95p)	<u>1,034</u>	<u>1,034</u>
Total 13.25p per share (1999 – 13.25p)	<u><u>1,377</u></u>	<u><u>1,377</u></u>

10. Earnings per share

Basic

The basic earnings per share is calculated by dividing the profit after taxation of £2,305,000 (1999 - £1,922,000) by the weighted average number of Ordinary shares in issue during the year of 10,389,230 (1999 - 10,389,230).

Diluted

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

	2000 Earnings £	2000 Weighted No. of Shares	Earnings per Share (Pence)	1999 Earnings £	1999 Weighted No. of Shares	Earnings per Share (Pence)
Basic earnings per share	2,305,000	10,389,230	22.19	1,922,000	10,389,230	18.50
Effect of dilutive securities: employee share options	-	9,799	-	-	6,793	-
Diluted Earnings per share	<u><u>2,305,000</u></u>	<u><u>10,399,029</u></u>	<u><u>22.17</u></u>	<u><u>1,922,000</u></u>	<u><u>10,396,023</u></u>	<u><u>18.49</u></u>

11. Tangible fixed assets – Group

	Land and buildings Freehold £000's	Short leasehold £000's	Plant and vehicles £000's	Total £000's
<i>Cost</i>				
At 1st January 2000	6,352	510	12,657	19,519
Additions	-	7	1,055	1,062
Disposals	-	-	(529)	(529)
At 31st December 2000	<u><u>6,352</u></u>	<u><u>517</u></u>	<u><u>13,183</u></u>	<u><u>20,052</u></u>
<i>Depreciation</i>				
At 1st January 2000	1,117	173	8,788	10,078
Charge for year	119	30	1,085	1,234
On disposals	-	-	(379)	(379)
At 31st December 2000	<u><u>1,236</u></u>	<u><u>203</u></u>	<u><u>9,494</u></u>	<u><u>10,933</u></u>
<i>Net book value</i>				
At 31st December 2000	<u><u>5,116</u></u>	<u><u>314</u></u>	<u><u>3,689</u></u>	<u><u>9,119</u></u>
At 31st December 1999	<u><u>5,235</u></u>	<u><u>337</u></u>	<u><u>3,869</u></u>	<u><u>9,441</u></u>

NOTES TO THE ACCOUNTS (continued)

12. Investments

	2000 £000's	1999 £000's
<i>Group</i>		
Associated undertakings:		
The Furlong Mills Company Limited		
2,080 Ordinary shares of £1 each representing 27.58% of the issued share capital	809	735
Share of net assets	(13)	(13)
Discount on acquisition	796	722
Portmeirion Canada Inc.		
100 common shares representing 50% of the issued share capital	466	366
Share of net assets	1,262	1,088
Partnership:		
15% partnership interest in Cardew Design:		
Opening balance at cost	816	816
Amount written off investment	(816)	(816)
	-	-
	1,262	1,088

The increase of £174,000 in the amount disclosed under investments represents the Group's share of profit in associated undertakings.

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 2000 the Company had the following subsidiary and associated undertakings and partnership interest:

<i>Subsidiary undertakings</i>	<i>Country of operation</i>	<i>Nature of business</i>
Portmeirion Potteries Limited	Great Britain	Pottery manufacturer
Portmeirion Finance Limited	Great Britain	Group finance company
Portmeirion Enterprises Limited *	Great Britain	Intermediate holding company
The Lane Delph Pottery Limited * (i)	Great Britain	Marketing and distribution of pottery and accessories
Portmeirion Cardew Limited *	Great Britain	Intermediate holding company
Portmeirion Japan K.K. * (Japan)	Japan	Marketing and distribution of pottery and accessories
Naugatuck Triangle Corporation (USA)	USA	Intermediate holding company
S. P. Skinner Co., Inc. (USA) **	USA	Marketing and distribution of pottery and accessories

Associated undertakings

Portmeirion Canada Inc. (Canada)	Canada	Marketing and distribution of pottery and accessories
The Furlong Mills Company Limited	Great Britain	Suppliers and millers of clay

Partnership interest

Cardew Design, Woodmanton Farm, Woodbury Nr. Exeter (ii) Manufacture and marketing of collectable teapots

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

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

* Wholly owned by Portmeirion Potteries Limited.

** Wholly owned by Naugatuck Triangle Corporation.

(i) The Lane Delph Pottery Limited changed its name to Portmeirion Distribution Limited on 8th January 2001.

(ii) Portmeirion Cardew Limited retired from the partnership, Cardew Design, on 10th February 2001.

NOTES TO THE ACCOUNTS (continued)

13. Stocks

	Group	
	2000 £000's	1999 £000's
Raw materials and other consumables	997	1,301
Work in progress	696	777
Finished goods	4,881	4,098
	<u>6,574</u>	<u>6,176</u>

14. Debtors

	Group	
	2000 £000's	1999 £000's
Trade debtors	4,730	3,288
Amounts owed by associated undertakings	347	349
Other debtors	501	444
Prepayments and accrued income	400	362
	<u>5,978</u>	<u>4,443</u>

15. Creditors: amounts falling due within one year

	Group		Company	
	2000 £000's	1999 £000's	2000 £000's	1999 £000's
Trade creditors	2,300	2,709	–	–
Amounts owed to associated undertakings	–	28	–	–
Corporation tax	596	356	–	–
Other taxation and social security	577	434	6	6
Dividends payable	1,034	1,034	1,034	1,034
Other creditors	443	48	36	36
	<u>4,950</u>	<u>4,609</u>	<u>1,076</u>	<u>1,076</u>

16. Provisions for liabilities and charges

	£000's
Deferred taxation:	
Balance at 1st January 2000	(326)
Current year credit	(116)
Balance at 31st December 2000	(442)

This is included in other debtors in Note 14.

NOTES TO THE ACCOUNTS (continued)

16. Provisions for liabilities and charges (continued)

	2000 Unprovided amount £000's	2000 Provided in the accounts £000's	1999 Unprovided amount £000's	1999 Provided in the accounts £000's
Deferred taxation:				
Accelerated capital allowances	670	–	665	–
Short term timing differences	(102)	(442)	(34)	(326)
	<u>568</u>	<u>(442)</u>	<u>631</u>	<u>(326)</u>

No provision is required for deferred taxation in the accounts of the Parent Company (1999- £nil).
The above figures exclude taxation payable in the event of profits of overseas subsidiary undertakings being distributed.

17. Share capital

	2000 Number 000's	2000 £000's	1999 Number 000's	1999 £000's
Authorised share capital:				
Ordinary shares of 5p each	15,000	750	15,000	750
Allotted, called up and fully paid share capital:				
Ordinary shares of 5p each	10,389	519	10,389	519

The market price of the Company's shares at 31st December 2000 was 161.5p per share. During the year the price ranged between 117.5p and 205p per share.

Options granted to Directors and employees to acquire Ordinary shares of 5p in the Company and still outstanding at 31st December 2000 were as follows:

	Number of shares	Exercise price per share	Dates on which exercisable	
			Earliest	Latest
The 1988 Executive Share Option Scheme	74,895	537.5p	28.04.2000	28.04.2001
The 1997 Unapproved Share Option Scheme	6,050	495.0p	01.07.2000	01.07.2001
The 1997 Approved Company Share Option Plan	18,000	215.0p	24.04.2001	24.04.2002
The 1997 Unapproved Share Option Scheme	15,000	215.0p	24.04.2001	24.04.2002
The 1997 Approved Company Share Option Plan	25,985	192.5p	26.08.2001	26.08.2002
The 1997 Unapproved Share Option Scheme	8,725	192.5p	15.09.2001	15.09.2002
The 1997 Approved Company Share Option Plan	16,000	142.5p	09.04.2002	09.04.2003
The 1997 Unapproved Share Option Scheme	82,000	142.5p	09.04.2002	09.04.2003

NOTES TO THE ACCOUNTS (continued)

17. Share capital (continued)

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

	At 01.01.00	Number of Options		At 31.12.00	Exercise Price	Date from which Exercisable	Expiry Date
		Granted	Lapsed				
L. F. Bryan	8,000	–	–	8,000	142.5p	09.04.2002	09.04.2003
K. Farhadi	8,000	–	–	8,000	215.0p	24.04.2001	24.04.2002
K. Farhadi	4,000	–	–	4,000	192.5p	26.08.2001	26.08.2002
K. Farhadi	50,000	–	–	50,000	142.5p	09.04.2002	09.04.2003
A. M. Miles	5,500	–	–	5,500	537.5p	28.04.2000	28.04.2001
A. M. Miles	5,000	–	–	5,000	495.0p	01.07.2000	01.07.2001
A. M. Miles	7,000	–	–	7,000	215.0p	24.04.2001	24.04.2002
A. M. Miles	4,000	–	–	4,000	192.5p	15.09.2001	15.09.2002
A. M. Miles	8,000	–	–	8,000	142.5p	09.04.2002	09.04.2003
B. W. J. Phillips	1,050	–	–	1,050	495.0p	01.07.2000	01.07.2001
B. W. J. Phillips	8,000	–	–	8,000	215.0p	24.04.2001	24.04.2002
B. W. J. Phillips	4,000	–	–	4,000	192.5p	26.08.2001	26.08.2002
B. W. J. Phillips	8,000	–	–	8,000	142.5p	09.04.2002	09.04.2003

No options were exercised by the Directors in the year.

18. Share premium account and reserves

	Share premium account £000's	Profit and loss account £000's
<i>Group</i>		
As at 1st January 2000	4,536	19,057
Retained profit for the year	–	928
Exchange adjustment	–	81
As at 31st December 2000	4,536	20,066

The cumulative amount of goodwill written off at 31st December 2000 was £515,000 (1999 - £515,000).

The balance carried forward on the profit and loss account of £20,066,000 (1999 - £19,057,000) includes the Group's share of associated undertakings' post acquisition reserves of £1,187,000 (1999 - £1,013,000).

	Other reserves £000's	Share premium account £000's	Profit and loss account £000's
<i>Company</i>			
As at 1st January 2000	197	4,536	8,501
Retained loss for the year	–	–	(1,414)
As at 31st December 2000	197	4,536	7,087

NOTES TO THE ACCOUNTS (continued)

19. Reconciliation of operating profit to operating cash flows

	2000 £000's	1999 £000's
Operating profit	2,769	2,359
Depreciation	1,234	1,182
Exchange gain	66	75
(Profit)/loss on sale of tangible fixed assets	(25)	39
Increase in stocks	(398)	(872)
Increase in debtors	(1,525)	(213)
Increase/(decrease) in creditors	134	(135)
	<u>2,255</u>	<u>2,435</u>

All of the above relate to continuing operations.

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

	2000 £000's	1999 £000's
Returns on investments and servicing of finance		
Interest received	315	328
Interest paid	-	(1)
	<u>315</u>	<u>327</u>
Net cash inflow for returns on investments and servicing of finance		
	<u>315</u>	<u>327</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1,062)	(1,450)
Sale of tangible fixed assets	142	179
	<u>(920)</u>	<u>(1,271)</u>
Net cash outflow for capital expenditure and financial investments		
	<u>(920)</u>	<u>(1,271)</u>

21. Analysis of net funds

	At 1st January 2000 £000's	Cash flow £000's	At 31st December 2000 £000's
Cash in hand, at bank	2,688	(1,560)	1,128
Short term money market deposits	4,885	1,125	6,010
	<u>7,573</u>	<u>(435)</u>	<u>7,138</u>
Total	<u>7,573</u>	<u>(435)</u>	<u>7,138</u>

Included in short term money market deposits is an advance of a European grant of £441,000 which is repayable to the European Commission in the event of the Visitor Centre project not proceeding. The amount secures a guarantee from the Group's bankers, HSBC plc.

NOTES TO THE ACCOUNTS (continued)

22. Commitments

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

	2000 Land and buildings £000's	1999 Land and buildings £000's
On leases expiring:		
Within one year	16	–
In two to five years	64	61
After five years	162	162
	<u> </u>	<u> </u>

Capital commitments are as follows:

	2000 £000's	1999 £000's
Contracted for	75	–
	<u> </u>	<u> </u>

23. Contingent liabilities

The Company has given an unlimited guarantee to HSBC plc in respect of the bank borrowings of Portmeirion Potteries Limited and Portmeirion Finance Limited. At 31st December 2000 the gross borrowings of Portmeirion Potteries Limited and Portmeirion Finance Limited amounted to £nil (1999 – £nil).

24. Related party transactions

The transactions during the year, and outstanding balances at 31st December 2000, with associated undertakings and Cardew Design (see Note 12) were:

	Purchases £000's	Sales £000's	Debtor £000's	Creditor £000's
Portmeirion Canada Inc.	–	747	323	–
The Furlong Mills Company Ltd.	519	–	5	–
Cardew Design	53	–	51	–

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

	£
K. Farhadi	482
B. W. J. Phillips	479

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

NOTES TO THE ACCOUNTS (continued)

24. Related party transactions (continued)

The following loans to Directors were outstanding as at 31 December 2000:

	Balance at 31.12.1999 £	Balance at 31.12.2000 £	
E. S. Cooper-Willis	8,067	–	Repaid in full February 2000
K. Farhadi	12,950	–	Repaid in full March 2000
A. M. Miles	4,000	2,000	

The maximum loan amount outstanding for the above Directors during the year was the balance outstanding at 31 December 1999.

25. Pensions

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

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

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

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

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

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

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

In the US there was a provision for payments into the money purchase scheme of £82,000 (1999 - £71,000) at 31st December 2000.

NOTES TO THE ACCOUNTS (continued)

26. Financial Instruments

Financial assets and liabilities

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:

	2000 £000's	2000 £000's	1999 £000's	1999 £000's
Short term money market deposits:				
Sterling	4,750		4,250	
US Dollar	819		411	
Euro	441		224	
	<hr/>	6,010	<hr/>	4,885
Cash at bank and in hand:				
Sterling	471		857	
US Dollar	379		1,359	
Euro	230		163	
Japanese Yen	45		300	
Canadian Dollar	3		9	
	<hr/>	1,128	<hr/>	2,688
		<hr/>		<hr/>
		7,138		7,573
		<hr/> <hr/>		<hr/> <hr/>

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

Currency exposures

As explained on page 11 in the Report of the Directors, the Group's objectives in managing currency exposures arising from its net investments overseas (its structural currency exposures) are to maintain appropriate levels of net assets in its overseas subsidiaries and associates. Gains and losses arising from these structural exposures are recognised in the statement of total recognised gains and losses. The Group did not have a material financial exposure to foreign exchange gains or losses on monetary assets and monetary liabilities denominated in foreign currencies at 31st December 2000.

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:

	2000 Net carrying amount £000's	2000 Estimated fair value £000's	1999 Net carrying amount £000's	1999 Estimated fair value £000's
Cash at bank and in hand and short term money market deposits	7,138	7,138	7,573	7,573
Derivative financial instruments:				
Foreign exchange contracts	–	(88)	–	78

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

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

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

FIVE YEAR SUMMARY

CONSOLIDATED PROFIT AND LOSS ACCOUNT INFORMATION

Years ended 31st December

	1996	1997	1998	1999	2000
	£000's	£000's	£000's	£000's	£000's
Turnover	31,668	30,785	26,013	27,469	30,727
Profit on ordinary activities before taxation	6,423	5,516	1,004	2,823	3,351
Taxation	(2,192)	(1,878)	(656)	(901)	(1,046)
Profit on ordinary activities after taxation	4,231	3,638	348	1,922	2,305
Dividends	(1,407)	(1,377)	(1,377)	(1,377)	(1,377)
Retained profit/(loss)	2,824	2,261	(1,029)	545	928
Earnings per share	40.89p	35.04p	3.35p	18.50p	22.19p

CONSOLIDATED BALANCE SHEET INFORMATION

At 31st December

	1996	1997	1998	1999	2000
	£000's	£000's	£000's	£000's	£000's
Capital employed					
Fixed assets	11,643	11,395	10,471	10,529	10,381
Net current assets	10,595	13,189	12,984	13,583	14,740
	22,238	24,584	23,455	24,112	25,121
Financed by					
Called up share capital	518	519	519	519	519
Share premium account and reserves	21,720	24,065	22,936	23,593	24,602
	22,238	24,584	23,455	24,112	25,121

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at the registered office of the Company at London Road, Stoke-on-Trent, on 25th May 2001 at 2.30 p.m. for the following purposes:

As ordinary business:

1. To receive, approve and adopt the report of the Directors and the audited accounts for the year ended 31st December 2000.
2. To declare a final dividend of 9.95p per share payable on 1st June 2001 to shareholders on the register at the close of business on 11th May 2001.
3. (a) To re-elect as a Director Mr. A. W. Ralley who retires by rotation.
(b) To re-elect as a Director Mr. A. M. Miles who retires by rotation.
(c) To elect as a Director Mrs. J. Kong who retires in accordance with the Articles of Association of the Company.
4. To re-appoint Deloitte & Touche as auditors of the Company to hold office until the Annual General Meeting of the Company to be held in 2002 and to authorise the Directors to fix their remuneration.
5. To authorise the Directors generally and unconditionally to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to a maximum of 3,463,060 Ordinary shares of 5p each during the period from the date of the passing of this Resolution up to and including 24th May 2006 on which date such authority will expire.

As special business: to consider and if thought fit pass the following resolutions which will be proposed as special resolutions:

6. That the Directors be hereby empowered to make allotments of equity securities pursuant to the authority conferred on them by a resolution of the shareholders passed by Resolution 5 above as if sub-section (1) of Section 89 of the Companies Act 1985 did not apply to any such allotment, provided that this power be limited:
 - (a) to the allotment of equity securities in connection with an issue in favour of Ordinary shareholders where equity securities respectively attributable to the interests of the Ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of Ordinary shares held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems in respect of overseas shareholders, fractional entitlements or otherwise; and
 - (b) to the allotment of equity securities pursuant to the terms of any share scheme for employees approved by the members in General Meeting; and
 - (c) to the allotment otherwise than pursuant to sub-paragraphs (a) or (b) above of equity securities up to an aggregate of 519,460 Ordinary shares of 5p each being approximately 5 per cent of the Company's issued share capital;

and that this power shall expire at the Annual General Meeting of the Company to be held in 2002 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may, notwithstanding such expiry, allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

NOTICE OF MEETING (continued)

7. That the Company be and is hereby generally and unconditionally authorised for the purposes of Section 166 of the Companies Act 1985 to make one or more market purchase (within the meaning of Section 163(3) of the said Act) of Ordinary shares of 5p each in the capital of the Company ("Ordinary shares") provided that:
- (a) the maximum aggregate number of Ordinary shares hereby authorised to be purchased is 1,558,384 (representing 15 per cent of the Company's issued Ordinary share capital);
 - (b) the minimum price which may be paid for such shares is 5p per share;
 - (c) the maximum price which may be paid for an Ordinary share shall not be more than 5 per cent above the average of the middle market quotation for an Ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the Ordinary share is purchased;
 - (d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the Annual General Meeting of the Company to be held in 2002 or within 18 months from the date of passing this resolution whichever shall be the earlier;
 - (e) the Company may make a contract or contracts to purchase Ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of Ordinary shares in pursuance of any such contracts.

By order of the Board

E. R. Cook

Secretary

11th April 2001

Notes:

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. To be valid the form of proxy should reach the offices of the Company's registrars at least forty-eight hours before the time appointed for holding the meeting. Appointment of a proxy will not prevent members from attending this meeting and voting in person.
2. A statement for the year ended 31st December 2000 of the transactions of each Director of the Company and his family in the shares of the Company will be available for inspection at the registered office of the Company during usual business hours from the date of this notice until the date of the meeting, and at the place of the meeting from 15 minutes prior to and during the meeting.
3. With reference to special business, item 6:
 - (a) it is not the present intention of the Directors to exercise the authority to allot except in relation to the allotment of shares under the share option schemes;
 - (b) if the authority to allot is approved, any new securities subsequently allotted would rank *pari passu* with existing Ordinary shares of the Company, as regards dividend, interest and all other matters. The date of issue of such shares and the date on which dealings in the shares would commence depend upon the actions of the individuals in whose favour the share options are granted.
4. With reference to special business, item 7:
 - (a) it is not the present intention of the Directors to exercise the authority to make market purchases of the Company's own shares;
 - (b) the Directors would only exercise this authority where it is in the best commercial interests of the Company to do so having taken into account market conditions prevailing at the time, the investment needs of the Company, its opportunities for expansion and its overall financial position.