# portmeirion group plc

report & accounts 2004

botanic roses

# contents

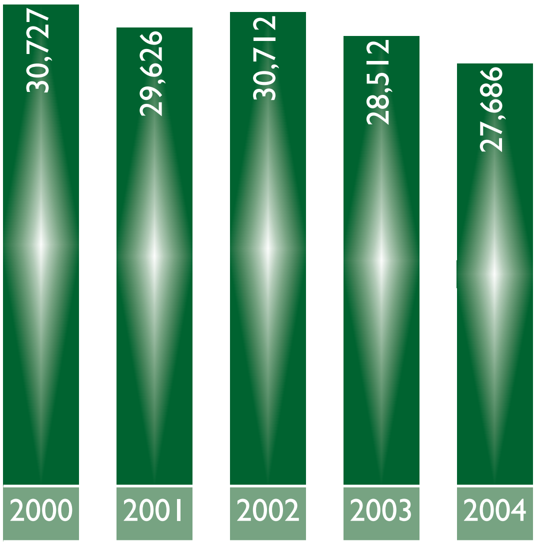


registered number 124842

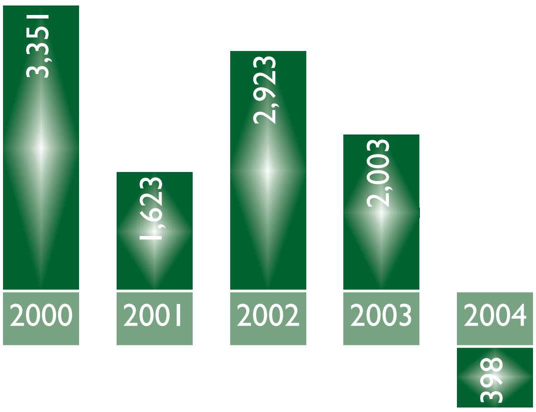
## FINANCIAL HIGHLIGHTS

| | 2004 £000's | 2003 £000's |
|---|---|---|
| Turnover | **27,686** | 28,512 |
| Pre-tax (loss)/profit before operating exceptionals | **(398)** | 2,003 |
| Pre-tax (loss)/profit after operating exceptionals | **(1,591)** | 2,003 |
| Basic (loss)/earnings per share | **(10.99p)** | 12.54p |
| Dividends per share | **13.25p** | 13.25p |

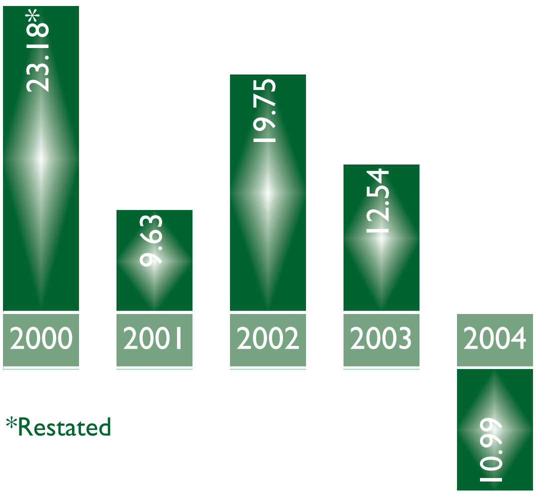
### TURNOVER (£'000)




### PRE-TAX (LOSS)/PROFIT BEFORE OPERATING EXCEPTIONALS (£'000)

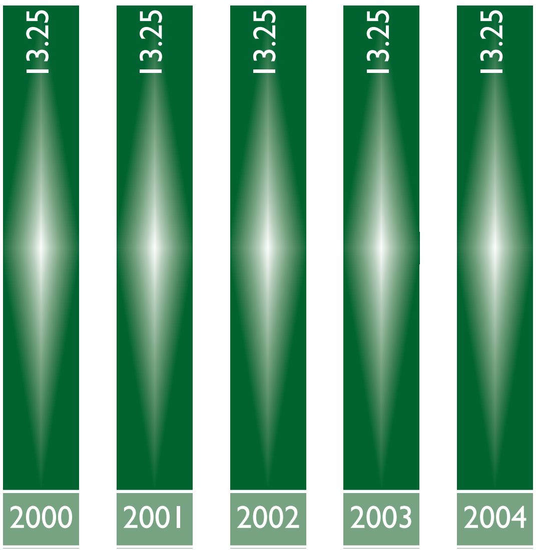



### BASIC (LOSS)/EARNINGS PER SHARE (p)




*Restated

### DIVIDENDS PER SHARE (p)



## DIRECTORS AND ADVISERS

| **Board of Directors** | |
|---|---|
| Arthur W. Ralley | *Chairman* |
| Lawrence F. Bryan BA FRSA | *Chief Executive* |
| Euan S. Cooper-Willis MA | *Non-executive Director* |
| Janis Kong OBE | *Non-executive Director* |
| Brett W.J. Phillips BSc ACA | *Group Finance Director* |
| Richard J. Steele BCOM FCA ATII | *Senior Non-executive Director* |
| Barbara S. Thomas BA JD | *Non-executive Director* |

**Secretary and Registered Office**

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

**Auditors**

Deloitte & Touche LLP
Birmingham

**Bankers**

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

**Stockbrokers**

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

**Registrars**

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA
Tel: 0870 162 3131

**Solicitors**

Pinsent Masons
3 Colmore Circus
Birmingham
B4 6BH

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

Sales for the year were £27.686 million, 2.9% below the previous year. If Group sales are compared on a like for like exchange rate, sales in 2004 were 0.5% greater than the previous year.

The loss before taxation, and before operating exceptional items, of £0.398 million compares with a profit of £2.003 million for the previous year. Operating exceptional asset write-downs of £1.193 million, arising from planned reorganisation, bring the total loss for the year to £1.591 million.

The Board is recommending a final dividend of 9.95p bringing the total to 13.25p for the year. This is unchanged from 2003.

**Results for the year**

The major factors that caused the Group to fall into a modest loss before tax and operating exceptionals were:

- A slight fall in annual sales, in a very challenging retail environment.

- A further fall in the value of the US dollar, which has cost the Group £0.5million in the year.

- A first full year contribution of £0.35 million to the Group's defined benefit pension scheme, which was closed in 1999. This contribution is now ongoing.

The operating exceptional non-cash costs of £1.193 million have been incurred primarily as a result of the major reorganisation of the Group's manufacturing and warehouse facilities, referred to in the announcement of 4th November 2004. The Group has also included in this figure asset write-downs of £236k associated with the planned closure of its Japanese subsidiary.

Sales in the UK were 1.7% lower than the previous year, in the face of intense low-cost competition from product ranges sourced overseas. Some 1.5% of margin had to be sacrificed to maintain this level of sales.

Sales in the US grew by 17%. This excellent improvement is, however, reduced to 6.6% when converted into sterling at the higher exchange rate. The improvement in the US was mainly the result of the new lower priced PS Portmeirion Studio ranges that accounted for some $2.0 million incremental sales. I believe we can continue to make progress in the US with additional products designed in the US specifically for their market. However, the weakened dollar continues to undermine our efforts.

The Group's policy is to sell US dollars forward, since the US has traditionally accounted for at least 35% of total sales. The Group sells up to 1 year in advance, for between 70% and 80% of expected currency requirements. In 2003 the average rate of conversion was $1.5199, in 2004 it was $1.6691 and for 2005 the Group is hedged at $1.7848. This further fall in the value of the US dollar is likely to cost an additional £0.5 million of pre-tax profit this year.

Sales in all our other export markets were below the previous year. The most significant was Korea, where, after several years of significant growth, sales fell by 4.7%. However, I expect the Group's sales to return to growth in Korea during 2005. The other major reduction in sales was in Italy, with a fall of 40%, due to a change of distributor in this market. Again, I expect sales to increase this year in Italy.

Since the Group has maintained a strong balance sheet the Board has decided to recommend that the dividend for the full year be maintained at 13.25p.

The Board believes that the Group must adapt evermore rapidly to the changes that have so negatively affected the ceramic manufacturing industry in the UK. Although the programme of product diversification over the last few years has helped, UK manufactured ceramics still account for 80% of Group sales. In order to return to healthy sales growth and profitability, the Board has embarked upon a programme of major reorganisation.

**Product strategy**

Under the PORTMEIRION brand, the Group will continue to develop lower-priced ranges, sourced overseas, to meet the intense low-cost competition now dominating the UK and US markets. The Group will continue to diversify into complementary housewares, such as glassware, gifts and placemats. I expect sourced products to increase from 20% to 50% of an increased sales level in the next 3 years. Since most imported products are bought in US dollars, this has the additional advantage of contributing to a natural hedge against a fluctuating exchange rate.

The Group will continue to expand the very successful and well-established classic ranges. Initiatives such as the freezer to oven cookware range, designed in conjunction with Aga and decorated with classic Portmeirion designs, have been a notable success in a difficult year.

**Manufacturing and Warehouse Reorganisation**

As announced on the 4th November 2004, the

Group is reducing its UK manufacturing, warehousing and distribution operations from 4 sites to 2, while maintaining current production capacity.

Progress since the announcement has been good. The consolidation of the smaller manufacturing site into the larger main site is underway, and I expect this move to be completed during the first half of the year.

The Group currently operates from 2 warehouse sites. The plans to move to a new purpose-built and larger warehouse early in 2006 with modern handling equipment are well advanced.

The total expenditure, including capital, on the reorganisation, which will result in the closure of 2 freehold sites, is planned to be under £1.0 million in 2005. However, proceeds from the sale of the 2 sites are expected to exceed this.

The anticipated reduction in operating costs will be approximately £0.5 million per annum, with full effect from 2006.

This reorganisation will ensure that the Group improves productivity in manufacturing, warehousing and distribution, so as to meet the increasing competitive challenges.

**Management Structure**

The reorganisation has resulted in a modest reduction in the size of the management team and workforce. However, I believe there is a major opportunity to increase sales to non-US export markets, which have suffered a decline in the last few years. To this end the Group has appointed a new Sales Director, Export Sales Manager, and Marketing Manager. I am confident that this new team will have a positive impact in existing markets, and in opening up new markets, such as China and Russia.

**Euan Cooper-Willis**

I would particularly like to pay tribute to Euan Cooper-Willis, who retires after this year's AGM.

Euan and his wife, Susan Williams-Ellis, our honorary President, founded the Company 45 years ago. Together they have built an extremely successful company, with the maxim that good design is good business. Portmeirion branded products are collected worldwide, which reflects the achievements of both Euan and Susan. Euan lead the Company as Chairman until 2000, and then assumed the role of Non-executive Director. In this role he has continued to give valuable guidance to the Board and I am sure that we will continue to be able to call upon his unparalleled experience.

**Current Trading and Prospects**

I expect 2005 to be a year of radical repositioning of the Group, which will result in less dependence on UK ceramic manufacturing in the future.

Sales so far in 2005 are slightly below the same period of 2004, and I think it is unrealistic to expect significant sales growth this year given the challenging environment we face. With improved efficiencies and tight cost control, I do believe the Group can bring about a significant improvement in performance.

With new targeted product ranges and the bulk of the reorganisation completed, I expect significant progress from 2006 onward.

I would like to thank the management team and the whole workforce for their contribution in 2004, in meeting the challenges of a difficult year, and in helping to reposition the Group to meet the challenges we face.

**Arthur Ralley**

Chairman 16th March 2005


botanic garden

**Product Strategy**

Although 2004 proved to be a difficult year for the Group there were areas of success. The US market achieved positive results and increased volume utilizing the sub brand of Portmeirion Studio. This strategic brand is tailored to support the distribution of lower priced ceramics and accessories manufactured in factories other than our own.

This success has encouraged the Group to develop this brand and strategy in other markets around the world. The test in the UK for 2004 was particularly successful in seasonal goods and future orders for the 2005 Christmas season have already been made.

Even though this sub branding position represents an opportunity for the Group we will not forego our roots. We will focus the majority of our efforts on the continued success of our classic design niche but will look for new avenues to attack a more diverse consumer base by offering a broader design selection with sourced, lower priced assortments.

**Sourcing**

Products manufactured for the Group by outside sources have been an integral part of our business for some years. However, we will be methodically increasing the percentage of our volume derived from sourced goods over the next 2 years. Our goal is to be at more than 50% of significantly increased volumes by year 2008. Our 2004 percentage was 20%.

The importance of finding new manufacturing sources with skills and value that cannot be matched in our own factories is paramount for the future of the Group. Hand painted ceramics and glass are two examples of significant volume contributors to our past and future success and incremental business.

In 2005, we will also launch our first sourced Portmeirion branded ceramic product using glaze treatments not achievable in our current production setup. Other existing low margin and capital intensive ceramic ranges have been moved overseas and this move will positively affect production margins in 2005 and beyond.

**New Sales Opportunities**

After many years of concentrating on two major markets, the USA and the UK, in 2001 we made a concerted effort to develop a Far East business. The considerable success we have enjoyed in Korea, which will be up to 15% of our volume in 2005, prompted us to drive to expand in Japan. Our Japanese subsidiary has not performed to expectations. In order to make up for the lack of growth there, we have renewed our efforts in the rest of the world by appointing new distributors in Italy, France, Australia and Russia. These appointments are showing positive signs already and will make an improved contribution to the Group's sales going forward. Our major export market, the USA, is also focused on growth following a like for like 17% increase in 2004. We intend to expand our assortments by taking on the distribution of other lines; a strategy that has reaped dividends in Canada for several years.

**Consolidation**

We have executed the first part of our consolidation and this has resulted in an exceptional non cash write-down of £1.2 million. The long term effect of this however is much more positive. The annual operating expenses of the Group will be reduced by more than £0.5 million and the integrated work forces of the two factories will be supervised by a leaner management team on a single site. This closing of our second factory allows us to eliminate the use of the last of our electric kilns which have become too cost prohibitive to operate.

Reduced transport costs, maintenance and general rates will be other major contributors to savings. Manufacturing margins for 2005 should be significantly improved with the movement of some ceramic lines to sourced production.

**Personnel**

In order to implement the strategies of the Group, we have recruited new executives and redefined other roles to adapt to the changing business environment.

A new Sales Director has been recruited bringing many years of diverse worldwide sales experience. He is joined by a new Export Sales Manager, whose positive impact on the export sales is already in evidence.

The Product Development and Design team has been expanded with the appointment of a new Marketing Manager, who brings industry experience and marketing expertise on a new level to the Group. The in house design team has been expanded significantly and will be guided by a Director of Design, with the help of a newly appointed Creative Director.

This restructuring and infusion of new talent will be a key part of the future success of the Group.

In summary, although 2004 was a poor trading year for the Group, I believe that the initiatives begun during the second half of the past year and in 2005 have been well planned and executed. Again our strong balance sheet allows us to commit to the shareholders that we have positioned ourselves well for the future of the Group. While 2005 is not expected to be easy, we believe we have a successful strategy in place that will balance the economies of worldwide manufacturing with the benefits and skills used in the making and designing of products in the UK. I am confident that this plan will deliver a significant improvement to the Group and its performance in the future.

Lawrence Bryan.

**Lawrence Bryan**
Chief Executive 16th March 2005

apple harvest

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 2004.

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

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

**Move to AIM**
On 17th June 2004 the Company moved from the official list of the London Stock Exchange plc to the Alternative Investment Market of the London Stock Exchange plc ("AIM"). The Directors believe that AIM, with its lower cost of complying with continuing obligations is more appropriate for a company of Portmeirion's size.

**Results**
The results for the year are set out on page 23. The loss for the year deducted from reserves amounted to £2,508,000 (2003 - loss of £75,000).

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

**Dividend**
On 1st October 2004 an interim dividend of 3.3p (2003 - 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 (2003 - 9.95p), making a total for the year of 13.25p (2003 - 13.25p) per share. The final dividend will be paid, subject to shareholders' approval, on 20th May 2005, to shareholders on the register at the close of business on 29th April 2005.

**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 2004 5p Ordinary shares** | | | As at 31st December 2003 5p Ordinary shares | | |
|---|---|---|---|---|---|---|
| | **Beneficial** | **Non-beneficial** | **Options** | Beneficial | Non-beneficial | Options |
| L.F. Bryan | **150,000** | **–** | **70,000** | 150,000 | – | 230,000 |
| E.S. Cooper-Willis | **1,427,150** | **378,000** | **–** | 1,557,150 | 378,000 | – |
| J. Kong | **3,000** | **–** | **–** | 3,000 | – | – |
| A.M. Miles (resigned 31st July 2004)* | **–** | **–** | **–** | – | – | 150,000 |
| B.W.J. Phillips | **10,455** | **–** | **50,000** | 10,455 | – | 150,000 |
| A.W. Ralley | **20,000** | **–** | **70,000** | 20,000 | – | 230,000 |
| R.J. Steele | **18,000** | **–** | **–** | 18,000 | – | – |
| B.S. Thomas | **5,000** | **–** | **–** | 5,000 | – | – |

* Upon his resignation on 31st July 2004 A.M. Miles' options over 150,000 Ordinary shares lapsed.
E.S. Cooper-Willis made two sales of Ordinary shares in the Company as follows: 7th January 2004, 20,000 shares at 173p per share and 15th April 2004, 55,000 shares at 200p per share.
S.C. Williams-Ellis, his wife, made two sales of Ordinary shares in the Company as follows: 7th January 2004, 10,000 shares at 173p per share and 15th April 2004, 45,000 shares at 200p per share.

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

Details of transactions with Directors and other related parties are to be found in Note 24 on page 39.

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

*B.W.J. Phillips*
Brett Phillips, aged 47, 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 completion of one year's notice.

*R.J. Steele - Senior Non-executive Director*
Dick Steele, aged 49, is the Senior Non-executive Director. He is a Chartered Accountant, a Member of the Academy of Experts and a Member of the Institute of Taxation. He has spent ten years as Group Finance Director of listed companies, latterly with Storehouse and before that Lloyds Chemists. He is Non-executive Chairman of HobbyCraft, Colab, Buckley Jewellery, Snap Digital Imaging, Original Additions and 99p Stores. His contract expires on completion of one year's notice. Dick Steele has served as a Non-executive Director for 6 years. The Chairman considers that he remains a valued and objective Non-executive Director whose independence is assured by his wide range of business interests.

**Non-executive Directors**
*R.J. Steele - Senior Non-executive Director*
See above for biographical information.

*E.S. Cooper-Willis*
Euan Cooper-Willis is a former Chairman of the Group. He founded the Portmeirion pottery business with his wife, Susan Williams-Ellis, in 1960. He worked for 18 years as an economist and investment adviser with stockbrokers Grieveson, Grant and Co. In 1973 he left the City to concentrate on the Group's business and the management of the Portmeirion resort created by Sir Clough Williams-Ellis, Susan's father. Since then he has been actively involved in the development and management of the Group. Euan plans to retire from the Board at the Annual General Meeting to be held on 16th May 2005.

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

*B.S. Thomas*
Barbara Thomas 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.

**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 2004, 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.

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

**Substantial shareholdings**
In addition to the Directors' interests notified above, the Company had been notified of the following beneficial interests in 3% or more of its issued share capital as at 16th March 2005:

| | Number of shares | Percentage |
|---|---|---|
| Fortress Finance Investment Inc | 2,262,500 | 21.71% |
| Saffery Champness Trust Corporation | 1,436,195 | 13.78% |
| Kamrouz Farhadi | 1,265,250 | 12.14% |
| Rysaffe Trustee Company (C.I.) Limited | 356,077 | 3.42% |

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

**Allotment of shares**
By law, shareholders' approval is required for the allotment of shares. Approval may either be given for particular allotments or by a general authority. The Directors were given a general authority to allot shares at the Annual General Meeting on 17th May 2004 in respect of £173,687 of share capital. This authority expires on 16th May 2009. Approval is being sought in Resolution 6 at the Annual General Meeting in respect of a general authority to allot up to £172,020 (being less than a third of the present issued share capital excluding treasury shares), to expire on 15th May 2010.

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 £172,020 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 £25,803 of share capital (being less than five per cent of the issued share capital of the Company excluding treasury shares) otherwise than on a rights issue. The Directors intend to propose that these authorities be renewed annually.

**Authority for market purchase of own shares**
Resolution 8 at the Annual General Meeting is a special resolution which will provide the authority for the Company to make market purchases of its own shares. 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 1,032,123 (being ten per cent of the issued share capital of the Company excluding treasury shares). The Directors intend to propose that this authority be renewed annually.

**Financial instruments**
The Group's net funds at 31st December 2004 were £4.9million (2003 - £7.2million). The Group's policy is to place funds on short-term deposit with highly rated institutions. The Group has no bank borrowings.

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

The most significant exposure to foreign currency arises from the US dollar sales made by the UK subsidiary to the US subsidiary. Forward contracts are in place to cover approximately 70% of the expected US dollar receipts for 2005. 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 42 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 2004 was 36 (2003 - 36). The Company has no trade creditors.

**Charitable and political contributions**
Contributions to various charities in the form of goods during the year amounted to £11,113 (2003 - £11,370) 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 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.

**Annual General Meeting**
The Annual General Meeting will be held at the registered office of the Company at London Road, Stoke-on-Trent, on 16th May 2005 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

16th March 2005

**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. Accordingly, all non-statutory disclosures made in this report are voluntary. The report describes how the Board has applied the Principles of the revised Combined Code relating to Directors' remuneration. 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 revised Combined Code. The members of the committee are R.J. Steele, J. Kong and B.S. Thomas who are all independent Non-executive Directors. R.J. Steele is the Senior Non-executive Director and Chairman of the Remuneration Committee. There have been no changes in the composition or chairmanship of the Remuneration Committee during the year.

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

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

**Remuneration policy**
Executive remuneration packages are prudently designed to attract, motivate and retain directors of high calibre and to reward them for enhancing value to shareholders. The performance measurement of the Executive Directors and the determination of their annual remuneration package are undertaken by the 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 2005 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 15% of the amount by which the Group profit before taxation exceeds the target. The maximum bonus payable is 200% 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 18th March 2003 can normally only be exercised if the basic earnings per share of the Group for the year ending 31st December 2005 is more than 15 per cent higher than the basic earnings per share of the Group for the year ended 31st December 2002. The reasons for selecting earnings per share as a measure of performance is that it directly reflects operational performance and also is a significant factor in determining the market's view of the Company's value.

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

The performance condition relating to the exercise of options granted after 31 December 2003 is that the growth in the basic earnings per share shown in the Group's audited accounts over the three years following the financial year immediately before the financial year in which the options were granted, is more than 15 per cent.

No share options were granted during 2004.

### 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 entitled participants to earn an incentive payment, to be paid in 2004, based on the movement in Company share price between the average mid-market price over 19th, 20th and 21st March 2001, being £1.692, and the average mid-market price over the three trading days after the day on which the 2003 results were announced, subject to a maximum increase in value per share of £4.00. The incentive payment is calculated by reference to nominal shareholdings. Payments under this scheme were made in April 2004 as detailed below.

The performance condition relating to the incentives granted after 31 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 Company's value.

No incentives under this scheme were granted to Directors during 2004.

**Pensions**

All the Executive Directors, except L.F. Bryan, are members of the Portmeirion Potteries Group Stakeholder Pension Plan, a defined contribution scheme. Annual performance related bonuses are not subject to contributions by the Company to the money purchase pension arrangements maintained for the Directors.

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

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

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

**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.

B.W.J. Phillips and R.J. Steele 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/she would have become entitled had contractual notice been given.

**Non-executive Directors**

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

**Aggregate Directors' remuneration**

The total amounts for Directors' remuneration were as follows:

| | 2004 £ | 2003 £ |
|---|---|---|
| Emoluments | 662,547 | 610,252 |
| Gains on exercise of share options | – | 2,400 |
| Long-term incentive plan payments | 61,280 | – |
| Money purchase pension contributions | 48,293 | 56,349 |
| | 772,120 | 669,001 |

### Directors' emoluments

| | Salary & fees £ | Benefits £ | Bonus £ | Total £ | Pension Contri-butions £ | 2004 Total £ | 2003 Total £ |
|---|---|---|---|---|---|---|---|
| *Executive* | | | | | | | |
| A.W. Ralley | 96,525 | 600 | – | 97,125 | 12,548 | 109,673 | 107,850 |
| L.F. Bryan | 155,135 | 1,913 | – | 157,048 | 13,272 | 170,320 | 181,494 |
| A.M. Miles (1) | 176,889 | 280 | – | 177,169 | 9,171 | 186,340 | 130,719 |
| B.W.J. Phillips | 120,930 | 600 | – | 121,530 | 13,302 | 134,832 | 133,019 |
| *Non-executive* | | | | | | | |
| E.S. Cooper-Willis | 53,025 | – | – | 53,025 | – | 53,025 | 58,519 |
| J. Kong | 18,025 | – | – | 18,025 | – | 18,025 | 17,500 |
| R.J. Steele (2) | 20,600 | – | – | 20,600 | – | 20,600 | 20,000 |
| B.S. Thomas (3) | 18,025 | – | – | 18,025 | – | 18,025 | 17,500 |
| **Total** | 659,154 | 3,393 | – | 662,547 | 48,293 | 710,840 | 666,601 |

*Notes*
(1) The 2004 figures for A.M. Miles relate to the period up to his resignation on 31st July 2004 and include total compensation in the amount of £101,695.
(2) The remuneration for R.J. Steele was made to Adsum Limited in respect of his services.
(3) The remuneration for B.S. Thomas was made to BT Consulting Inc. Limited in respect of her services.

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

### Directors' pension entitlements

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

| | Accrued pension at 01.01.04 £ | Increase in accrued pension in the year £ | Accrued pension at 31.12.04 * £ |
|---|---|---|---|
| A.M. Miles | 6,133 | 174 | 6,307 |
| B.W.J. Phillips | 19,130 | 573 | 19,703 |

* The figure provided in respect of A.M. Miles is at the date of his resignation, 31st July 2004.

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

| | Transfer value at 01.01.04 £ | Contributions made by the Director £ | Increase/(decrease) in transfer value in the period net of contributions £ | Transfer value at 31.12.04* £ |
|---|---|---|---|---|
| A.M. Miles | 51,500 | – | (1,361) | 50,139 |
| B.W.J. Phillips | 204,000 | – | 13,285 | 217,285 |

* The figure provided in respect of A.M. Miles is at the date of his resignation, 31st July 2004.

**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. No options were exercised during the year.

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

| Director | At 01.01.04 | Granted | Exercised | Lapsed | At 31.12.04* | Exercise Price | Date from which Exercisable | Expiry Date |
|---|---|---|---|---|---|---|---|---|
| | Number of Options | | | | | | | |
| *The 1997 Unapproved Share Option Scheme* | | | | | | | | |
| L.F. Bryan | 50,000 | – | – | – | 50,000 | 187.5p | 09.04.2005 | 09.04.2006 |
| A.M. Miles | 14,000 | – | – | 14,000 | – | 187.5p | 09.04.2005 | 09.04.2006 |
| B.W.J. Phillips | 24,200 | – | – | – | 24,200 | 187.5p | 09.04.2005 | 09.04.2006 |
| A.W. Ralley | 34,000 | – | – | – | 34,000 | 187.5p | 09.04.2005 | 09.04.2006 |
| *The 1997 Approved Company Share Option Plan* | | | | | | | | |
| A.M. Miles | 16,000 | – | – | 16,000 | – | 187.5p | 09.04.2005 | 09.04.2006 |
| B.W.J. Phillips | 5,800 | – | – | – | 5,800 | 187.5p | 09.04.2005 | 09.04.2006 |
| A.W. Ralley | 16,000 | – | – | – | 16,000 | 187.5p | 09.04.2005 | 09.04.2006 |
| *The 2002 Share Option Scheme* | | | | | | | | |
| L.F. Bryan | 160,000 | – | – | 160,000 | – | 195.0p | 11.06.2005 | 11.06.2006 |
| L.F. Bryan | 20,000 | – | – | – | 20,000 | 165.9p | 18.03.2006 | 18.03.2007 |
| A.M. Miles | 100,000 | – | – | 100,000 | – | 195.0p | 11.06.2005 | 11.06.2006 |
| A.M. Miles | 20,000 | – | – | 20,000 | – | 165.9p | 18.03.2006 | 18.03.2007 |
| B.W.J. Phillips | 100,000 | – | – | 100,000 | – | 195.0p | 11.06.2005 | 11.06.2006 |
| B.W.J. Phillips | 20,000 | – | – | – | 20,000 | 165.9p | 18.03.2006 | 18.03.2007 |
| A.W. Ralley | 160,000 | – | – | 160,000 | – | 195.0p | 11.06.2005 | 11.06.2006 |
| A.W. Ralley | 20,000 | – | – | – | 20,000 | 165.9p | 18.03.2006 | 18.03.2007 |

* The figures provided in respect of A.M. Miles are at the date of his resignation, 31st July 2004.

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

(2) The share price reached a high of 207.5p and a low of 145.0p during 2004. The average share price during 2004 was 174.0p.

**Long-term incentive schemes**

The Directors participating in the Phantom Share Option Scheme 2001 at the end of 2004 are shown below together with their interests.

| | Nominal shareholding at 31st December 2003 | Paid during the year £ | Nominal shareholding at 31st December 2004 | Interest at 31st December 2004 £ |
|---|---|---|---|---|
| L.F. Bryan | 50,000 | 19,150 | – | – |
| A.M.Miles | 30,000 | 11,490 | – | – |
| B.W.J. Phillips | 30,000 | 11,490 | – | – |
| A.W. Ralley | 50,000 | 19,150 | – | – |
| | | 61,280 | | |

(1) The share price at 31st December 2004 was £1.70.

(2) No nominal shareholdings were granted to Directors during the year.

(3) The performance criteria attaching to long-term incentives are detailed on page 15.

**Approval**

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

B.W.J. Phillips
Company Secretary
16th March 2005

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 July 2003. Accordingly all disclosures made in this statement are voluntary but are comparable with those required of a listed company. The Directors consider the Code to be indicative of best practice and have adopted the principles therein where they are applicable to the size and nature of the Group.

**The Board**

The Company is controlled by the Board of Directors, comprising three 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. E.S. Cooper-Willis plans to retire from the Board at the Annual General Meeting to be held on 16th May 2005. 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 as described below. Following the principles of the Code the Chief Executive, who was appointed such in 2001, intends to retire for re-election every third year.

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. 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 | 3* | – | 1* | – | 1 | 1 |
| L.F. Bryan (Chief Executive) | 6 | 6 | 3* | – | 1* | – | 1 | 1 |
| E.S. Cooper-Willis (Non-executive) | 5 | 6 | 1* | – | – | – | 1 | 1 |
| J. Kong (Non-executive) | 6 | 6 | 3 | 3 | 1 | 1 | 1 | 1 |
| B.W.J. Phillips (Group Finance Director) | 6 | 6 | 3* | – | – | – | 1* | – |
| R.J. Steele (Senior Non-executive) | 6 | 6 | 3 | 3 | 1 | 1 | 1 | 1 |
| B.S. Thomas (Non-executive) | 5 | 6 | 2 | 3 | 1 | 1 | 1 | 1 |

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 three independent Non-executive Directors and these Non-executive Directors appraised the Chairman.

**Nomination Committee**

The Nomination Committee is chaired by A.W. Ralley and comprises all 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 the three independent 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. 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 the three independent 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 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 Company 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

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

– select suitable accounting policies and then apply them consistently;
– make judgements and estimates that are reasonable and prudent;
– state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

**To the Members of Portmeirion Group PLC**

We have audited the financial statements of Portmeirion Group PLC for the year ended 31 December 2004 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the statement of accounting policies and the related notes 1 to 26. 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**

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

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

**Basis of audit opinion**

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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 31 December 2004 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**Deloitte & Touche LLP**
**Chartered Accountants and Registered Auditors**
**Birmingham**
**16th March 2005**

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December 2004

| | Notes | Before exceptional items 2004 £000's | Operating exceptional items 2004 £000's | Total 2004 £000's | Total 2003 £000's |
|---|---|---|---|---|---|
| **Turnover - continuing operations** | 1 | **27,686** | **–** | **27,686** | 28,512 |
| Raw materials and operating costs | 2 | **(28,418)** | **(1,193)** | **(29,611)** | (26,665) |
| **Operating (loss)/profit - continuing operations** | 4 | **(732)** | **(1,193)** | **(1,925)** | 1,847 |
| Share of profit of associated undertakings | | **145** | **–** | **145** | 216 |
| Interest receivable and similar income | 5 | **211** | **–** | **211** | 174 |
| Interest payable and similar charges | 6 | **(22)** | **–** | **(22)** | – |
| Impairment of investment in associated undertaking | | **–** | **–** | **–** | (234) |
| **(Loss)/profit on ordinary activities before taxation** | | **(398)** | **(1,193)** | **(1,591)** | 2,003 |
| Taxation credit/(charge) on (loss)/profit on ordinary activities | 7 | | | **454** | (697) |
| **(Loss)/profit on ordinary activities after taxation being the (loss)/profit for the financial year** | 8 | | | **(1,137)** | 1,306 |
| Dividends paid and proposed | 9 | | | **(1,371)** | (1,381) |
| Retained loss for the financial year | 18 | | | **(2,508)** | (75) |
| (Loss)/earnings per share | 10 | | | **(10.99p)** | 12.54p |
| Diluted (loss)/earnings per share | 10 | | | **(10.99p)** | 12.53p |
| Dividends per share | 9 | | | **13.25p** | 13.25p |

Movements on reserves during the year are shown in Note 18 on page 37.
There were no exceptional items in the year ended 31st December 2003.

# CONSOLIDATED BALANCE SHEET
As at 31st December 2004

| | Notes | 2004 £000's | 2004 £000's | 2003 £000's | 2003 £000's |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | 11 | | **6,279** | | 7,872 |
| Investments | 12 | | **1,544** | | 1,460 |
| | | | **7,823** | | 9,332 |
| **Current assets** | | | | | |
| Stocks | 13 | **6,054** | | 6,775 | |
| Debtors | 14 | **5,926** | | 4,868 | |
| Cash at bank and in hand | | **4,859** | | 7,228 | |
| | | **16,839** | | 18,871 | |
| **Creditors:** amounts falling due within one year | 15 | **(3,680)** | | (3,932) | |
| **Net current assets** | | | **13,159** | | 14,939 |
| **Total assets less current liabilities** | | | **20,982** | | 24,271 |
| **Provisions for liabilities and charges** | 16 | | **(19)** | | (307) |
| **Net assets** | | | **20,963** | | 23,964 |
| **Capital and reserves** | | | | | |
| Called up share capital | 17 | | **521** | | 521 |
| Share premium account | 18 | | **4,580** | | 4,580 |
| Treasury shares | 18 | | **(202)** | | – |
| Profit and loss account | 18 | | **16,064** | | 18,863 |
| **Equity shareholders' funds** | | | **20,963** | | 23,964 |

These financial statements were approved by the Board of Directors and signed on 16th March 2005 on its behalf by:

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

# COMPANY BALANCE SHEET
As at 31st December 2004

| | Notes | 2004 £000's | 2004 £000's | 2003 £000's | 2003 £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 | |
| **Creditors:** amounts falling due within one year | 15 | **(2,902)** | | (4,262) | |
| **Net current assets** | | | **8,009** | | 6,649 |
| **Net assets** | | | **9,464** | | 8,104 |
| **Capital and reserves** | | | | | |
| Called up share capital | 17 | | **521** | | 521 |
| Share premium account | 18 | | **4,580** | | 4,580 |
| Other reserves | 18 | | **197** | | 197 |
| Treasury shares | 18 | | **(202)** | | – |
| Profit and loss account | 18 | | **4,368** | | 2,806 |
| **Equity shareholders' funds** | | | **9,464** | | 8,104 |

These financial statements were approved by the Board of Directors and signed on 16th March 2005 on its behalf by:

**L.F. Bryan**
**B. W. J. Phillips**
$\Big\}$ Directors

# CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31st December 2004

| | Notes | 2004 £000's | 2003 £000's |
|---|---|---|---|
| Cash inflow from operating activities | 19 | **48** | 1,852 |
| Returns on investments and servicing of finance | 20 | **171** | 173 |
| Taxation | | **(604)** | (431) |
| Capital expenditure and financial investment | 20 | **(414)** | (697) |
| Equity dividends paid | | **(1,368)** | (1,381) |
| **Cash outflow before use of liquid resources and financing** | | **(2,167)** | (484) |
| Management of liquid resources | | **2,560** | 420 |
| Financing | 20 | **(202)** | 34 |
| **Increase/(decrease) in cash in the year** | | **191** | (30) |

**Reconciliation of net cash flow to movement in net funds** (Note 21)

| | 2004 £000's | 2003 £000's |
|---|---|---|
| Increase/(decrease) in cash in the year | **191** | (30) |
| Cash inflow from decrease in liquid resources | **(2,560)** | (420) |
| Net funds at 1st January | **7,228** | 7,678 |
| **Net funds at 31st December** | **4,859** | 7,228 |

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year ended 31st December 2004

### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| | 2004 £000's | 2003 £000's |
|---|---|---|
| (Loss)/profit for the financial year | **(1,137)** | 1,306 |
| Currency translation differences | **(291)** | (342) |
| **Total recognised gains and losses for the financial year** | **(1,428)** | 964 |

### RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 2004 £000's | 2003 £000's |
|---|---|---|
| (Loss)/profit for the financial year | **(1,137)** | 1,306 |
| Dividends | **(1,371)** | (1,381) |
| Currency translation differences | **(291)** | (342) |
| Shares issued under employee share schemes | **–** | 34 |
| Purchase of treasury shares | **(202)** | – |
| **Net reduction in shareholders' funds** | **(3,001)** | (383) |
| Opening shareholders' funds | **23,964** | 24,347 |
| **Closing shareholders' funds** | **20,963** | 23,964 |

**(a) Accounting basis**

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

**(b) Consolidation**

The Group accounts include the accounts of the Company and of its subsidiary undertakings. The Group's share of the results and retained earnings of associated undertakings is included. All accounts for subsidiaries and associated companies have been prepared for the year ended 31st December 2004 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 2005 and the accounts of Portmeirion Canada Inc. which have a year end of 30th June 2004. The Group accounts include interim financial information to 31st December 2004 for Portmeirion Finance Limited and the results of Portmeirion Canada Inc. for the year to 31st December 2004.

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

**(c) Depreciation**

*(i) Tangible fixed assets*

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

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

*(ii) Leased assets*

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

**(d) Investments**

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

**(e) Stock**

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

**(f) Turnover**

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

**(g) Research and development**

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

**(h) Deferred taxation**

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

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

**(i) Translation of foreign currencies**

*(i) Trading*

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

*(ii) Overseas subsidiary undertakings*

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

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

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

*(iii) Overseas associated undertakings*

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

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

**(j) Group pension schemes**

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

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

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

**(k) Purchase of own shares**

The Group has complied with the provisions of UITF 37 - Purchase and sales of own shares. As a result of this, investment in own shares has been classified to other reserves - treasury shares.

## 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* | **2004 £000's** | 2003 £000's |
|---|---|---|
| United Kingdom | **11,848** | 12,055 |
| North America | **10,256** | 9,920 |
| European Union | **1,338** | 1,873 |
| Far East | **3,913** | 4,099 |
| Rest of the World | **331** | 565 |
| | **27,686** | 28,512 |

| *Turnover by origin* | **2004 Total sales £000's** | **2004 Inter-segment sales £000's** | **2004 Sales to third parties £000's** | 2003 Total sales £000's | 2003 Inter-segment sales £000's | 2003 Sales to third parties £000's |
|---|---|---|---|---|---|---|
| United Kingdom | **22,863** | **(5,467)** | **17,396** | 23,902 | (5,122) | 18,780 |
| North America | **9,841** | **–** | **9,841** | 9,229 | – | 9,229 |
| Far East | **449** | **–** | **449** | 503 | – | 503 |
| | **33,153** | **(5,467)** | **27,686** | 33,634 | (5,122) | 28,512 |

| *Operating (loss)/profit by origin* | **Before exceptional items 2004 £000's** | **Operating exceptional items 2004 £000's** | **Total 2004 £000's** | 2003 £000's |
|---|---|---|---|---|
| United Kingdom | **(684)** | **(957)** | **(1,641)** | 1,959 |
| North America | **208** | **–** | **208** | 235 |
| Far East | **(256)** | **(236)** | **(492)** | (347) |
| Operating (loss)/profit | **(732)** | **(1,193)** | **(1,925)** | 1,847 |

| *Net assets by origin* | **2004 £000's** | 2003 £000's |
|---|---|---|
| United Kingdom | **16,969** | 19,730 |
| North America | **3,394** | 3,486 |
| Far East | **83** | 323 |
| Operating net assets | **20,446** | 23,539 |
| Unallocated net assets | **517** | 425 |
| Total net assets | **20,963** | 23,964 |

Unallocated net assets consist of dividends payable of £1,027,000 (2003 - £1,035,000) and investments in associated undertakings of £1,544,000 (2003 - £1,460,000).
Details of investments in associated undertakings are provided in Note 12 on page 34.

## 2. Raw materials and operating costs

| | Before exceptional items 2004 £000's | Operating exceptional items 2004 £000's | Total 2004 £000's | Total 2003 £000's |
|---|---|---|---|---|
| Change in stocks of finished goods and work in progress | **433** | **216** | **649** | (416) |
| Raw materials and consumables | **6,624** | **–** | **6,624** | 6,477 |
| Other external charges | **8,124** | **–** | **8,124** | 8,118 |
| Staff costs (see Note 3) | **12,250** | **–** | **12,250** | 11,536 |
| Depreciation and other amounts written off tangible fixed assets | **987** | **977** | **1,964** | 950 |
| | **28,418** | **1,193** | **29,611** | 26,665 |

*Operating exceptional Items*
A review of the Group's cost base and profitability has led to the decision to consolidate manufacturing onto one site in Stoke-on-Trent and to close down the Group's subsidiary in Japan and two retail outlets in the UK. The resultant write down of fixed assets and stocks has been included in operating costs but has been treated as exceptional. The exceptional costs are:

| | 2004 £000's | 2003 £000's |
|---|---|---|
| Write down of fixed assets | **977** | – |
| Write down of stocks | **216** | – |
| | **1,193** | – |

## 3. Staff numbers and costs

| | 2004 Number | 2003 Number |
|---|---|---|
| *The average number of persons employed during the year, including Directors:* | | |
| Operatives | **377** | 392 |
| Staff | **248** | 232 |
| | **625** | 624 |

| | £000's | £000's |
|---|---|---|
| *Staff costs:* | | |
| Wages and salaries | **10,227** | 9,872 |
| Social security costs | **1,143** | 818 |
| Defined contribution and money purchase pension schemes costs | **880** | 846 |
| | **12,250** | 11,536 |

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 14 to 18. Details of Directors' current share options are shown in the Directors' Remuneration Report on page 18.

## 4. Operating (loss)/profit

| | | 2004 £000's | 2003 £000's |
|---|---|---|---|
| Operating (loss)/profit is stated after charging: | | | |
| Research and development | | **198** | 335 |
| Auditors' remuneration | – audit | **45** | 43 |
| | – other services | **16** | 19 |
| Operating lease rentals | – land and buildings | **479** | 377 |
| | – other | **35** | – |

The audit fee for the Company was £2,000 (2003 - £2,000)

## 5. Interest receivable and similar income

| | 2004 £000's | 2003 £000's |
|---|---|---|
| Bank deposits | 175 | 174 |
| Other interest receivable | 36 | – |
| | 211 | 174 |

## 6. Interest payable and similar charges

| | 2004 £000's | 2003 £000's |
|---|---|---|
| Interest paid to the Inland Revenue | 22 | – |

Interest arises following an adjustment to UK corporation tax in a prior period due to a carry back of a tax loss in the US.

## 7. Taxation on (loss)/profit on ordinary activities

| | 2004 £000's | 2003 £000's |
|---|---|---|
| United Kingdom corporation tax at 30% (2003 - 30%) | 42 | 645 |
| Adjustment to corporation tax in respect of prior years | (264) | 2 |
| Overseas taxation | 33 | 33 |
| Adjustment to overseas taxation in respect of prior years | 8 | (106) |
| Associated undertakings | 64 | 77 |
| Double tax relief | (49) | – |
| Current taxation | (166) | 651 |
| Deferred taxation: | | |
| Deferred taxation origination and reversal of timing differences | (332) | 65 |
| Adjustment to deferred taxation in respect of prior years | 44 | (19) |
| | (454) | 697 |

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% (2003 - 30%). The actual tax (credit)/charge for the current and the previous year differs from the standard rate for the reasons set out in the following reconciliation:

| | 2004 £000's | 2003 £000's |
|---|---|---|
| (Loss)/profit on ordinary activities before taxation | (1,591) | 2,003 |
| Tax on profit on ordinary activities at standard rate of 30% | (477) | 601 |
| *Factors affecting charge for the period:* | | |
| Accelerated capital allowances | 314 | 16 |
| Other timing differences | 14 | (81) |
| Expenses not deductible for tax purposes | 85 | 108 |
| Tax losses carried back | 120 | – |
| Tax losses carried forward | 4 | – |
| Unrelieved losses in foreign subsidiaries | 60 | 97 |
| Foreign tax charged at higher rates than UK standard rate | 19 | 14 |
| Adjustments to tax charge in respect of prior periods | (256) | (104) |
| Double tax relief | (49) | – |
| Total actual amount of tax on (loss)/profit on ordinary activities | (166) | 651 |

## 8. Profit for the financial year

No profit and loss account is presented for the Company as permitted by section 230 of the Companies Act 1985. The consolidated loss of £1,137,000 (2003 - profit of £1,306,000) includes a profit of £2,933,000 (2003 - loss of £48,000) which is dealt with in the financial statements of the Company.

## 9. Dividends paid and proposed

| | 2004 £000's | 2003 £000's |
|---|---|---|
| Interim 3.3p per share paid (2003 - 3.3p) | 344 | 344 |
| Final 9.95p per share proposed (2003 - 9.95p) | 1,027 | 1,037 |
| Total 13.25p per share (2003 - 13.25p) | 1,371 | 1,381 |

## 10. Earnings per share

***Basic***
The basic (loss)/earnings per share are calculated by dividing the loss after taxation of £1,137,000 (2003 - profit of £1,306,000) by the weighted average number of Ordinary shares in issue during the year of 10,350,192 (2003 - 10,414,918).

***Diluted***
The diluted (loss)/earnings per share are calculated in accordance with Financial Reporting Standard 14 (FRS 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:

| | 2004 Loss £ | 2004 Weighted No. of Shares | 2004 Loss per Share (Pence) | 2003 Earnings £ | 2003 Weighted No. of Shares | 2003 Earnings per Share (Pence) |
|---|---|---|---|---|---|---|
| Basic (loss)/earnings per share | (1,137,000) | 10,350,192 | (10.99) | 1,306,000 | 10,414,918 | 12.54 |
| Effect of dilutive securities: employee share options | – | – | – | – | 6,000 | – |
| Diluted (loss)/earnings per share | (1,137,000) | 10,350,192 | (10.99) | 1,306,000 | 10,420,918 | 12.53 |

FRS 14 requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems inappropriate to assume that option holders would act irrationally and there are no other diluting future share issues, diluted loss per share equals basic loss per share.

## 11. Tangible fixed assets - Group

| | Land and buildings Freehold £000's | Land and buildings Short leasehold £000's | Plant and vehicles £000's | Total £000's |
|---|---|---|---|---|
| *Cost* | | | | |
| At 1st January 2004 | 6,205 | 593 | 14,628 | 21,426 |
| Additions | – | – | 437 | 437 |
| Disposals | – | – | (98) | (98) |
| Exchange adjustments | (54) | (9) | (27) | (90) |
| **At 31st December 2004** | **6,151** | **584** | **14,940** | **21,675** |
| *Depreciation* | | | | |
| At 1st January 2004 | 1,530 | 299 | 11,725 | 13,554 |
| Charge for year | 107 | 61 | 819 | 987 |
| On disposals | – | – | (78) | (78) |
| Impairment | 327 | 188 | 462 | 977 |
| Exchange adjustments | (13) | (7) | (24) | (44) |
| **At 31st December 2004** | **1,951** | **541** | **12,904** | **15,396** |
| *Net book value* | | | | |
| **At 31st December 2004** | **4,200** | **43** | **2,036** | **6,279** |
| At 31st December 2003 | 4,675 | 294 | 2,903 | 7,872 |

As described in Note 2 on page 31, an impairment review has resulted in a write-down of tangible fixed assets.

## 12. Investments

| | **2004 £000's** | 2003 £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 | **1,127** | 1,041 |
| Discount on acquisition | **(13)** | (13) |
| Impairment of investment in Furlong Mills Limited | **(234)** | (234) |
| | **880** | 794 |
| Portmeirion Canada Inc. | | |
| 100 common shares representing 50% of the issued share capital | | |
| Share of net assets | **664** | 666 |
| | **1,544** | 1,460 |

The increase of £84,000 in the amount disclosed under investments represents the Group's share of profits in associated undertakings.

| | **2004 £000's** | 2003 £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 |

### 12. Investments (continued)

At 31st December 2004 the Company had the following subsidiary and associated undertakings:

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

The companies are incorporated in Great Britain and registered in England and Wales except where stated. The share capital of all subsidiary undertakings consists solely of Ordinary shares.

* Wholly owned by Portmeirion Potteries Limited.

** Wholly owned by Naugatuck Triangle Corporation.

### 13. Stocks

| | Group 2004 £000's | Group 2003 £000's |
|---|---|---|
| Raw materials and other consumables | **1,019** | 1,091 |
| Work in progress | **1,212** | 1,214 |
| Finished goods | **3,823** | 4,470 |
| | **6,054** | 6,775 |

### 14. Debtors

| | Group 2004 £000's | Group 2003 £000's |
|---|---|---|
| Trade debtors | **4,598** | 4,030 |
| Amounts owed by associated undertakings | **95** | 176 |
| Corporation tax | **605** | – |
| Other debtors | **64** | 63 |
| Prepayments and accrued income | **564** | 599 |
| | **5,926** | 4,868 |

### 15. Creditors: amounts falling due within one year

| | Group 2004 £000's | Group 2003 £000's | Company 2004 £000's | Company 2003 £000's |
|---|---|---|---|---|
| Trade creditors | **1,951** | 1,988 | **–** | – |
| Amounts owed to subsidiary undertakings | **–** | – | **1,822** | 3,186 |
| Amounts owed to associated undertakings | **18** | 20 | **–** | – |
| Corporation tax | **–** | 235 | **–** | – |
| Other taxation and social security | **579** | 486 | **6** | 6 |
| Dividends payable | **1,027** | 1,035 | **1,027** | 1,035 |
| Other creditors | **105** | 168 | **47** | 35 |
| | **3,680** | 3,932 | **2,902** | 4,262 |

## 16. Provisions for liabilities and charges

| | £000's |
|---|---|
| Deferred taxation: | |
| Balance at 1st January 2004 | 307 |
| Credit for year ended 31st December 2004 | (288) |
| **Balance at 31st December 2004** | **19** |

| | **2004** | | 2003 | |
|---|---|---|---|---|
| | **Provided in the accounts £000's** | **Full potential £000's** | Provided in the accounts £000's | Full potential £000's |
| Deferred taxation: | | | | |
| Accelerated capital allowances | **216** | **216** | 544 | 544 |
| Short term timing differences | **(197)** | **(197)** | (237) | (237) |
| Deferred tax liability | **19** | **19** | 307 | 307 |

No provision is required for deferred taxation in the accounts of the Company (2003- £nil).
The above figures exclude taxation payable in the event of profits of overseas subsidiary undertakings being distributed.

## 17. Share capital

| | **2004** | | 2003 | |
|---|---|---|---|---|
| | **Number 000's** | **£000's** | Number 000's | £000's |
| Authorised share capital: | | | | |
| Ordinary shares of 5p each | **15,000** | **750** | 15,000 | 750 |
| Allotted, called up and fully paid share capital: | | | | |
| Ordinary shares of 5p each | **10,421** | **521** | 10,421 | 521 |

The market price of the Company's shares at 31st December 2004 was 170.0p per share. During the year the price ranged between 145.0p and 207.5p per share.

Options granted to Directors and employees to acquire Ordinary shares of 5p in the Company and still outstanding at 31st December 2004 were as follows:

| | **Number of shares** | **Exercise price per share** | **Dates on which exercisable Earliest** | **Latest** |
|---|---|---|---|---|
| The 1997 Approved Company Share Option Plan | 39,300 | 187.5p | 09.04.2005 | 09.04.2006 |
| The 1997 Unapproved Share Option Scheme | 108,200 | 187.5p | 09.04.2005 | 09.04.2006 |
| The 1997 Approved Company Share Option Plan | 28,200 | 195.0p | 24.04.2005 | 24.04.2006 |
| The 1997 Unapproved Share Option Scheme | 4,300 | 195.0p | 24.04.2005 | 24.04.2006 |
| The Portmeirion 2002 Share Option Scheme | 80,000 | 165.9p | 18.03.2006 | 18.03.2007 |

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

## 18. Share premium account and reserves

| | Share premium account £000's | Other reserves – treasury shares £000's | Profit and loss account £000's |
|---|---|---|---|
| *Group* | | | |
| As at 1st January 2004 | 4,580 | – | 18,863 |
| Retained loss for the year | – | – | (2,508) |
| Exchange adjustment | – | – | (291) |
| Purchase of own shares | – | (202) | – |
| **As at 31st December 2004** | **4,580** | **(202)** | **16,064** |

The cumulative amount of goodwill written off at 31st December 2004 was £515,000 (2003 - £515,000).
The balance carried forward on the profit and loss account of £16,064,000 (2003 - £18,863,000) includes the Group's share of associated undertakings' post acquisition reserves of £1,703,000 (2003 - £1,619,000).

| | Share premium account £000's | Other reserves £000's | Treasury shares £000's | Profit and loss account £000's |
|---|---|---|---|---|
| *Company* | | | | |
| As at 1st January 2004 | 4,580 | 197 | – | 2,806 |
| Retained profit for the year | – | – | – | 1,562 |
| Purchase of own shares | – | – | (202) | – |
| **As at 31st December 2004** | **4,580** | **197** | **(202)** | **4,368** |

On 16th April 2004 the Company purchased 100,000 of its own Ordinary shares of 5p each at a cost of £202,000.

## 19. Reconciliation of operating (loss)/profit to operating cash flows

| | **2004 £000's** | 2003 £000's |
|---|---|---|
| Operating (loss)/profit | **(1,925)** | 1,847 |
| Depreciation | **987** | 950 |
| Impairment of tangible fixed assets - operating exceptional | **977** | – |
| Exchange loss | **(248)** | (305) |
| (Profit)/loss on sale of tangible fixed assets | **(3)** | 35 |
| Decrease/(increase) in stocks | **721** | (580) |
| (Increase)/decrease in debtors | **(441)** | 611 |
| Decrease in creditors | **(20)** | (706) |
| Net cash inflow from operating activities | **48** | 1,852 |

All of the above relate to continuing operations.

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

| | 2004 £000's | 2004 £000's | 2003 £000's | 2003 £000's |
|---|---|---|---|---|
| **Returns on investments and servicing of finance** | | | | |
| Interest received | **193** | | 173 | |
| Interest paid | **(22)** | | – | |
| **Net cash inflow from returns on investments and servicing of finance** | | **171** | | 173 |
| **Capital expenditure and financial investment** | | | | |
| Purchase of tangible fixed assets | **(437)** | | (801) | |
| Sale of tangible fixed assets | **23** | | 104 | |
| **Net cash outflow for capital expenditure and financial investments** | | **(414)** | | (697) |
| **Financing** | | | | |
| Issue of Ordinary shares under share option schemes | **–** | | 34 | |
| Purchase of treasury shares | **(202)** | | – | |
| **Net cash (outflow)/inflow from financing** | | **(202)** | | 34 |

## 21. Analysis of net funds

| | At 1st January 2004 £000's | Cash flow £000's | **At 31st December 2004 £000's** |
|---|---|---|---|
| Cash in hand, at bank | 1,164 | 191 | **1,355** |
| Short term money market deposits | 6,064 | (2,560) | **3,504** |
| **Total** | 7,228 | (2,369) | **4,859** |

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

## 22. Commitments

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

| | **2004 Land and buildings £000's** | **Other £000's** | 2003 Land and buildings £000's | Other £000's |
|---|---|---|---|---|
| On leases expiring: | | | | |
| Within one year | **87** | **35** | – | – |
| In two to five years | **203** | **–** | 304 | – |
| After five years | **189** | **–** | 195 | – |

| Capital commitments are as follows: | **2004 £000's** | 2003 £000's |
|---|---|---|
| Contracted for | **–** | – |

### 23. 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 2004 the gross borrowings of Portmeirion Potteries Limited and Portmeirion Finance Limited amounted to £nil (2003 - £nil).

### 24. Related party transactions

The transactions during the year with associated undertakings were:

| | Purchases 2004 £000's | Purchases 2003 £000's | Sales 2004 £000's | Sales 2003 £000's |
|---|---|---|---|---|
| Portmeirion Canada Inc. | – | – | 335 | 579 |
| Furlong Mills Ltd. | 559 | 464 | – | – |

The outstanding balances at 31st December 2004, with associated undertakings were:

| | Debtor 2004 £000's | Debtor 2003 £000's | Creditor 2004 £000's | Creditor 2003 £000's |
|---|---|---|---|---|
| Portmeirion Canada Inc. | 95 | 176 | – | – |
| Furlong Mills Ltd. | – | – | 18 | 20 |

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. B.W.J. Phillips made purchases of £453 from the Group during the year ended 31st December 2003.

The Group made purchases totalling £116,000 from Buckley Jewellery Limited during the year on commercial terms. 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 Company was a party during the financial year.

### 25. Pensions

The Group operates a group stakeholder pension plan in the UK.

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

For the defined benefit scheme, the most recent triennial valuation was at 6th April 2002. The main actuarial assumptions used in the valuation were:

* Price inflation of 2.5% per annum
* Pre-retirement valuation rate of interest of 6.75% per annum
* Post-retirement valuation rate of interest of 4.75% per annum
* Increases to pensions in payment of 5% per annum on benefits in excess of the guaranteed minimum pension (GMP) earned prior to 6th April 1997, 2.5% per annum on pensions earned after 6th April 1997 and 3.0% on GMP earned after 6th April 1988.

At the date of the last valuation on 6th April 2002 the market value of the scheme assets was £13,172,000 and the scheme had a deficiency of £2,622,000.

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

### 25. Pensions (continued)

The actuarial valuation of the scheme was updated as at 31st December 2004, 31st December 2003 and 31st December 2002 by qualified actuaries. The major assumptions used by the actuaries were:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Rate of increase in salaries | **not applicable** | not applicable | not applicable |
| Rate of increase in pensions in payment: | | | |
| Post 06.04.88 GMP | **3.00%** | 3.00% | 3.00% |
| Pre 06.04.97 excess over GMP | **5.00%** | 5.00% | 5.00% |
| Post 06.04.97 pension | **2.75%** | 2.50% | 2.50% |
| Rate of revaluation of pensions in deferment | **2.75%** | 2.50% | 2.50% |
| Rate used to discount scheme liabilities | **5.50%** | 5.75% | 5.75% |
| Inflation assumption | **2.75%** | 2.50% | 2.50% |

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

| | 2004 | | 2003 | | 2002 | |
|---|---|---|---|---|---|---|
| | **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 | **6.75%** | **9,583** | 7.00% | 8,488 | 6.50% | 4,851 |
| Bonds | **5.25%** | **5,016** | 5.50% | 4,568 | 4.50% | 7,202 |
| Insured annuities | **5.50%** | **274** | 5.75% | 256 | 5.00% | 230 |
| **Total fair value of assets** | | **14,873** | | 13,312 | | 12,283 |
| Present value of scheme liabilities | | **(18,242)** | | (15,435) | | (13,923) |
| **Deficit in the scheme** | | **(3,369)** | | (2,123) | | (1,640) |
| Recoverable deficit in the scheme | | **(3,369)** | | (2,123) | | (1,640) |
| Related deferred tax | | **1,011** | | 637 | | 492 |
| **Net pension liability** | | **(2,358)** | | (1,486) | | (1,148) |

FRS 17 "Retirement Benefits" has not been fully implemented. The standard requires the disclosure of the amounts which have affected the profit and loss account, the statement of recognised gains and losses or the balance sheet if the standard had been fully implemented. For the year ended 31st December 2004 these amounts are:

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

| | 2004 £000's | 2003 £000's |
|---|---|---|
| Current service cost | **–** | – |
| Past service cost | **–** | – |
| | **–** | – |

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

| | 2004 £000's | 2003 £000's |
|---|---|---|
| Expected return on pension scheme assets | **865** | 651 |
| Interest on pension scheme liabilities | **(887)** | (801) |
| | **(22)** | (150) |

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

| | 2004 £000's | 2003 £000's |
|---|---|---|
| Actuarial return less expected return on pension scheme assets | **675** | 572 |
| Experience gains and losses arising on the scheme liabilities | **47** | (403) |
| Changes in assumptions underlying the present value of the scheme liabilities | **(2,294)** | (560) |
| | **(1,572)** | (391) |

## 25. Pensions (continued)

| *Movement in scheme deficit during the year* | **2004 £000's** | 2003 £000's |
|---|---|---|
| Deficit as at 1st January | **(2,123)** | (1,640) |
| Movement in year: | | |
| Employer contributions | **348** | 58 |
| Other finance income | **(22)** | (150) |
| Actuarial loss | **(1,572)** | (391) |
| Shortfall as at 31st December | **(3,369)** | (2,123) |

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

| | **2004 £000's** | 2003 £000's | 2002 £000's |
|---|---|---|---|
| Actuarial return less expected return on pension scheme assets | **675** | 572 | (1,169) |
| *Percentage of scheme assets* | ***5%*** | *4%* | *(10%)* |
| Experience gains and losses arising on the scheme liabilities | **47** | (403) | (710) |
| *Percentage of scheme liabilities* | **–** | *(3%)* | *(5%)* |
| Total amount recognised in statement of recognised gains and losses | **(1,572)** | (391) | (2,546) |
| *Percentage of scheme liabilities* | ***(9%)*** | *(3%)* | *(18%)* |

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31st December 2004 would be as follows:

| **Net assets** | **2004 £000's** | 2003 £000's |
|---|---|---|
| Net assets, excluding pension liability | **20,963** | 23,964 |
| Pension liability under FRS 17, net of related deferred tax | **(2,358)** | (1,486) |
| Net assets, including pension liability | **18,605** | 22,478 |

| **Reserves** | **2004 £000's** | 2003 £000's |
|---|---|---|
| Profit and loss reserve, excluding pension liability | **16,064** | 18,863 |
| Pension liability under FRS 17, net of related deferred tax | **(2,358)** | (1,486) |
| Profit and loss reserve, including pension liability | **13,706** | 17,377 |

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 £81,000 (2003 - £64,000) at 31st December 2004.

## 26. Financial instruments

***Financial assets and liabilities***

The additional narrative disclosures required by FRS13 are included on page 12 in the Report of the Directors.

The Group has defined financial assets and liabilities as those assets and liabilities of a financial nature, namely cash, short term money market deposits and borrowings. Short term debtors/creditors, taxation, prepayments and accruals have been excluded. All of the Group's financial assets and liabilities are at floating rates.

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

| | 2004 £000's | 2004 £000's | 2003 £000's | 2003 £000's |
|---|---|---|---|---|
| Short term money market deposits: | | | | |
| Sterling | **3,000** | | 4,900 | |
| US Dollar | **504** | | 1,164 | |
| | | **3,504** | | 6,064 |
| Cash at bank and in hand: | | | | |
| Sterling | **506** | | 628 | |
| US Dollar | **552** | | 382 | |
| Euro | **139** | | 69 | |
| Japanese Yen | **66** | | 23 | |
| Canadian Dollar | **92** | | 62 | |
| | | **1,355** | | 1,164 |
| | | **4,859** | | 7,228 |

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

***Currency exposures***

As explained on page 12 in the Report of the Directors, the Group's objectives in managing currency exposures arising from its net investments overseas (its structural currency exposures) are to maintain appropriate levels of net assets in its overseas subsidiaries and associates. Gains and losses arising from these structural exposures are recognised in the statement of total recognised gains and losses. The Group did not have a material financial exposure to foreign exchange gains or losses on monetary assets and monetary liabilities denominated in foreign currencies at 31 December 2004.

***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:

| | 2004 Net carrying amount £000's | 2004 Estimated fair value £000's | 2003 Net carrying amount £000's | 2003 Estimated fair value £000's |
|---|---|---|---|---|
| Cash at bank and in hand and short term money market deposits | **4,859** | **4,859** | 7,228 | 7,228 |
| Derivatives financial instruments: | | | | |
| Foreign exchange contracts | **–** | **228** | – | 148 |

**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.

The Group's unrecognised gains on financial instruments were £228,000 and these are expected to be realised in the next financial year (2003 - £148,000 in the next financial year).

## CONSOLIDATED PROFIT AND LOSS ACCOUNT INFORMATION

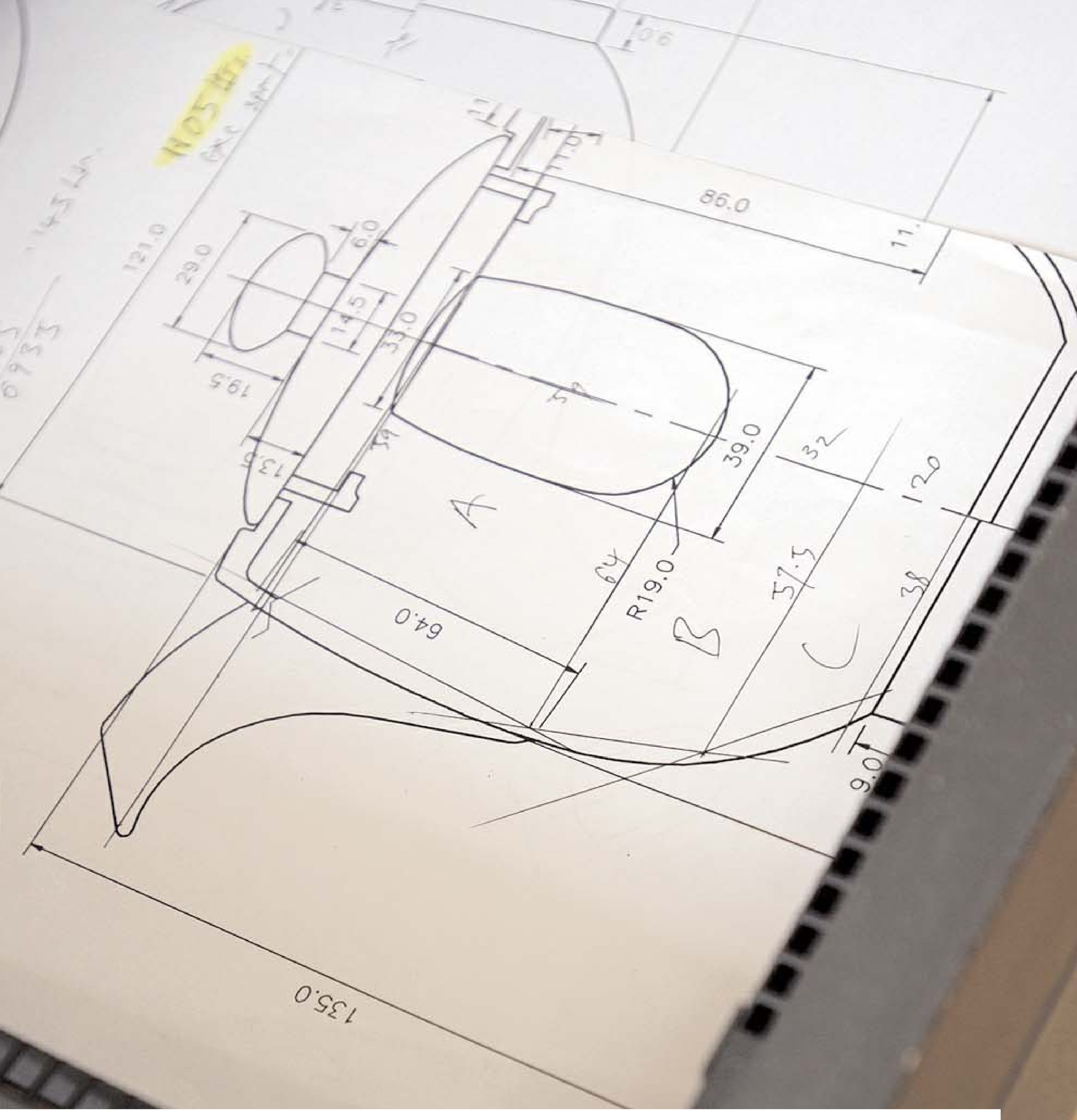
Years ended 31st December

| | As restated 2000 £000's | 2001 £000's | 2002 £000's | 2003 £000's | **2004 £000's** |
|---|---|---|---|---|---|
| **Turnover** | 30,727 | 29,626 | 30,712 | 28,512 | **27,686** |
| **Profit/(loss) on ordinary activities before taxation** | 3,351 | 1,623 | 2,923 | 2,003 | **(1,591)** |
| Taxation | (943) | (623) | (870) | (697) | **454** |
| **Profit/(loss) on ordinary activities after taxation** | 2,408 | 1,000 | 2,053 | 1,306 | **(1,137)** |
| Dividends | (1,377) | (1,377) | (1,378) | (1,381) | **(1,371)** |
| **Retained profit/(loss)** | 1,031 | (377) | 675 | (75) | **(2,508)** |
| Earnings/(loss) per share | 23.18p | 9.63p | 19.75p | 12.54p | **(10.99p)** |

## CONSOLIDATED BALANCE SHEET INFORMATION

At 31st December

| | As restated 2000 £000's | 2001 £000's | 2002 £000's | 2003 £000's | **2004 £000's** |
|---|---|---|---|---|---|
| **Capital employed** | | | | | |
| Fixed assets | 10,381 | 10,405 | 9,752 | 9,332 | **7,823** |
| Net current assets | 14,298 | 14,055 | 14,856 | 14,939 | **13,159** |
| Provisions for liabilities and charges | (203) | (192) | (261) | (307) | **(19)** |
| | 24,476 | 24,268 | 24,347 | 23,964 | **20,963** |
| **Financed by** | | | | | |
| Called up share capital | 519 | 519 | 520 | 521 | **521** |
| Share premium account and reserves | 23,957 | 23,749 | 23,827 | 23,443 | **20,442** |
| | 24,476 | 24,268 | 24,347 | 23,964 | **20,963** |




teapot – soho shape – technical drawings by queensberry hunt

# financial calendar

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

soho