PORTMEIRION GROUP PLC

Report & Accounts 2007

This is an interactive pdf please click here to view the contents listing


BOTANIC Garden
BOTANIC Garden

Contents

Click on contents listing to be taken to that section or use buttons top right

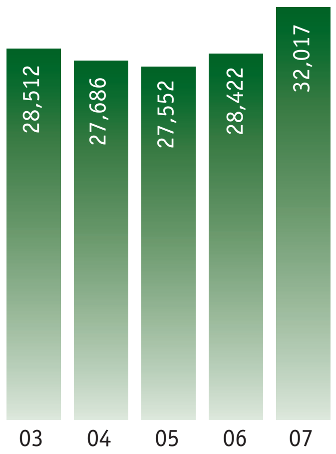
Registered number 124842

Financial Highlights

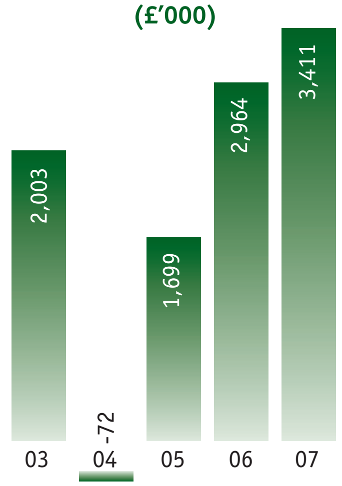
	2007 £'000	2006 £'000	Increase %
Revenue	**32,017**	28,422	12.6
Pre-tax profit before exceptional items (note 5)	**3,411**	2,964†	15.1
Pre-tax profit after exceptional items (note 5)	**4,419**	2,687†	64.5
Cash (absorbed by)/generated from operations	**(1,056)**	2,731	–
Basic earnings per share	**30.77p**	17.81p†	72.8
Dividends paid and proposed per share in respect of the year (note 13)	**14.70p**	14.00p	5.0

†Restated to reflect the adoption of IFRS as per note 33.

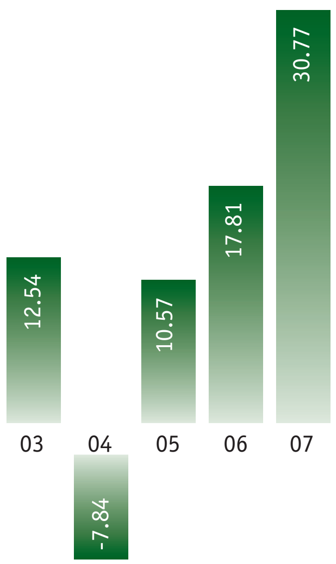
REVENUE (£'000)



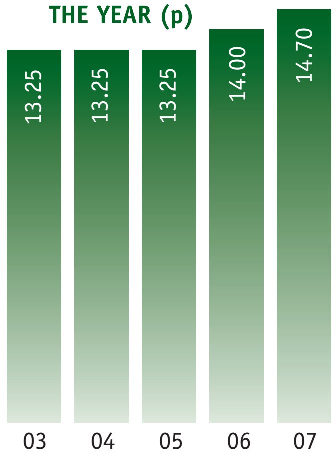
PRE-TAX PROFIT/(LOSS) BEFORE EXCEPTIONAL ITEMS (£'000)



BASIC EARNINGS/(LOSS) PER SHARE (p)



DIVIDENDS PAID AND PROPOSED PER SHARE IN RESPECT OF THE YEAR (p)



Information for the years ended 31 December 2003, 2004 and 2005 are prepared in accordance with UK GAAP. All other figures are prepared in accordance with IFRS.

Business Review

Dividend

The Board is recommending a final dividend of 11.15p bringing the total paid and proposed for the year to 14.70p, an increase of 5% compared to 2006. We firmly believe that the value and strength of a company lies in its ability to generate long term returns for shareholders. Since we first went onto the Stock Market at an issue price of £1.80 in November 1988, we have paid dividends totalling £2.22 per share, including the final proposed 2007 dividend.

The dividend will be paid, subject to shareholders' approval, on 23 May 2008, to shareholders on the register at the close of business on 25 April 2008.

Results for the year

Revenue of £32 million in 2007 was an all time record for Portmeirion. The pre-exceptional profit before tax increased by 15.1% to £3.411 million (2006: £2.964 million). Our sales increase was even higher in real terms as our sales from Portmeirion USA are transacted in US dollars, and for 2007 we have translated our dollar sales at $2.0022/£ whereas in 2006 we translated at $1.8424/£. At constant exchange rates our sales increase would have been 16.3% rather than the 12.6% reported figure.

As stated last year, we have enjoyed a pre-tax exceptional credit on the disposal of a freehold site, which has been partly offset by exceptional charges in respect of the opening of the new UK warehouse.

Cash generation was strong during the year, enabling us to invest some £1.5 million in capital expenditure, mainly in the new warehouse but also in our production facilities in Stoke. Because of the major change to our warehousing facilities, stock absorbed more cash during the year. Stock balances should move towards optimum levels in 2008. We finished the year with cash balances of £2.7 million, a £2.5 million reduction on 2006.

Our pension scheme deficit, net of deferred tax, is £1.8 million under IAS19, a decrease of £2.2 million over 2006. We made a cash contribution of £0.348 million to our final salary scheme, closed in 1999, during the year.

The Group's three largest markets are the United States – 38% of sales (2006: 39%), United Kingdom – 29% of sales (2006: 30%) and South Korea – 17% of sales (2006: 20%). Both the US and the UK provided increases compared to 2006, although as stated earlier, the United States increase is depressed by the translation rate of the US dollar. The Group now has broad equivalence between US dollar receipts and payments, so we are less subject to real foreign exchange differences, although translation differences will still affect reported figures.

Product design and development

We are widely recognised by our heritage ranges – Botanic Garden, Pomona and Holly & Ivy; these are strengths of the Group. Increasingly we are becoming known for our contemporary designs such as Sophie Conran and Totally Tracy, and, since 2006, for Pimpernel. We continue to build upon all our successful ranges and to develop new ones.

Our new product pipeline is now stronger, more diverse and more commercial than at any time during the Group's history. It seeks to serve a number of different consumer markets, United States, United Kingdom and South Korea being our three largest. To serve such markets we have to have a global outlook and global sourcing feeding into a centralised product development department based in Stoke-on-Trent. We spend approximately 3% of revenue on design and development.

Business Review
Continued

Manufacturing and sourcing

We are committed to our presence in Stoke-on-Trent, where approximately two-thirds of our product is manufactured. We have a skilled and loyal workforce here and a significant investment in manufacturing. Nevertheless, we operate in global markets which demand globally sourced products and prices. It is likely that the percentage of our sales which is manufactured abroad will increase over the years, but it is also likely that our volumes through our Stoke factory will be maintained. To achieve these aims we look to increase sales.

We are constantly striving to increase the efficiency and capabilities of our Stoke factory, and indeed of our manufacturing partners overseas. Efficiencies at Stoke have continued to improve in 2007.

Warehousing

We opened our new warehouse at Trentham Lakes in Stoke-on-Trent in September 2007. This was a huge undertaking and it took longer than planned to get the new warehouse operating at an optimum level, with some loss of revenue. Any commissioning problems are now behind us and we go forward confidently with greater flexibility in terms of customer service.

We are intending to undertake a similar warehouse move in the USA in 2008 in order to accommodate the increasing volumes in that market and the increasing demands of our customers.

Environment

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce damage that might be caused by the Group's activities. Initiatives designed to reduce the Group's impact on the environment include the recycling of manufacturing waste, reducing its carbon emissions and utilisation of recyclable packaging materials.

Examples of our environmental commitment include recycling our fired ceramic waste in ceramic tiles produced by a local manufacturer and recycling our used plaster of paris moulds in the cement industry. As part of our continuing commitment to recycling we are investigating the feasibility of using our unfired ceramic waste (our only major waste stream currently not recycled) as a raw material component in the brick industry.

Portmeirion's commitment to reducing our carbon emissions is evidenced by our being party to a Climate Change Agreement since 2000. During this period, Portmeirion has reduced its Specific Primary Energy Consumption from 34,522 kWh/tonne to the level, in 2007, of 22,558 kWh/tonne. This represents an improvement in energy efficiency of 35% and a reduction in CO_2 emissions of 12,344 tonnes, a 12% reduction.

Corporate governance

As an AIM listed company we are not subject to the full rigour of the corporate governance regime, nevertheless we comply more fully than required using the rules which apply to fully listed companies as guidance. We have deliberately chosen not to extend our Board by the addition of another non-executive director, nor to shuffle the committee positions around in line with what would constitute full compliance, as we consider that to do so would be of no significant benefit to shareholders.

Outlook

The Group will continue with its established policies for growth. We will focus on developing the brand with the emphasis on product design and development, particularly contemporary ranges and continued extensions to our heritage patterns. Commercial design is at the heart of everything we do. We will use vigorous efforts to expand our existing customer base worldwide and continue to look for new retail outlets in the UK.

In 2008 we will be focusing specifically on maximising the benefits from our new UK warehouse and bringing our stock to more optimum levels, realising the full benefits from the Pimpernel brand and on the efficient move of our US warehouse to larger premises.

In summary, we will continue to drive growth in sales, return on sales and dividend payments.

Current trading remains strong and we are well positioned to deliver further growth and shareholder value in 2008.

Richard Steele
Non-executive Chairman

Lawrence Bryan
Chief Executive

In Memory of Susan Williams-Ellis 1918-2007

Founder of Portmeirion Group PLC

Sadly the passing of Susan Williams-Ellis was announced on 27 November 2007. A great British designer and renowned artist, Susan will be greatly missed by her family, friends and colleagues.

Always at the forefront of contemporary design, Susan was known for her originality both in design and manufacturing techniques, which led to her enviable reputation for ceramic shape design, and the creation of trend setting patterns that had popular, worldwide appeal. These designs are now seen as iconic statements of 1960's and '70's ceramic design. Susan's entrepreneurial success as a designer and businesswoman (as well as wife and mother) was extraordinary.

Her desire to create gift items for the shop in Portmeirion Village caused Susan and her husband Euan Cooper-Willis to purchase A. E. Gray & Company Ltd, a small pottery decorating company based in Stoke-on-Trent and subsequently a second pottery business, Kirkhams Limited. These businesses were later combined and the design and manufacture of pottery products bearing the "Portmeirion" name began. With an established reputation for innovative design, Susan and Euan, an eminent economist, developed the Portmeirion Potteries business into a highly successful company.

The history and philosophy of the Portmeirion Pottery ranges stems from Susan's ability to design and model shapes that were both functional and aesthetically pleasing. Since the origin of the company Susan created shapes by turning the originals by hand, from which the moulds were produced. Such involvement and devotion to the quality of the design and production of the product was rare, and when combined with Susan's individual style and creativity, became unique.

With nearly fifty years of creativity, Susan Williams-Ellis' contribution to British design style, Portmeirion Potteries and the British ceramics industry is immeasurable, and it places her firmly in the company of a small group of great and celebrated 20th Century ceramic designers. Her philosophy will continue to permeate and influence Portmeirion's design values and contribute to the success of the company that she created.

Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements of the Company and its subsidiary undertakings for the year ended 31 December 2007.

Principal activity

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

Business review

A full review of the performance of the Group for the year is given in the section of the Business Review entitled "Results for the year" on page 3. Current trading and the future are commented on, on page 5.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 31 to the financial statements.

Principal risks and uncertainties

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

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

Principal risks identified include:

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

Details of the Group's financial risk management policies are included in note 31 on page 55.

Key performance indicators

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

- Revenue
- Profit before tax
- Earnings per share
- Operating cash flow

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

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

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

Report of the Directors
Continued

Results
The results for the year are set out on page 25. The movements on reserves are shown in notes 25 and 26 on pages 49 and 50.

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 1 October 2007 an interim dividend of 3.55p (2006 – 3.30p) per share was paid on the Ordinary share capital.
The Directors recommend that a final dividend of 11.15p per share be paid (2006 – 10.70p), making a total for the year of 14.70p (2006 – 14.00p) per share. The final dividend will be paid, subject to shareholders' approval, on 23 May 2008, to shareholders on the register at the close of business on 25 April 2008.

Capital structure
Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 24. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 24.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders.
The powers of Directors are described in the Corporate Governance Statement on page 19.

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 21 May 2007 in respect of £163,096 of share capital. This authority expires on 20 May 2012. The Company's practice is to replace this authority annually and approval is being sought in Resolution 6 at the Annual General Meeting in respect of a general authority to allot up to £164,763 of share capital, approximately equal to a third of the present issued share capital excluding treasury shares, to expire on 19 May 2013.

Shareholders' approval is also required for the issue of shares wholly for cash otherwise than in accordance with certain statutory pre-emption provisions contained in the Companies Act 1985. Approval is being sought in Resolution 7 at the Annual General Meeting to renew authorities in respect of the allotment pursuant to a rights issue of all the share capital whose allotment is authorised by the general authority referred to above, the allotment of Ordinary shares pursuant to the terms of the employee share scheme and the allotment otherwise of up 494,290 Ordinary shares, approximately equal to five per cent of the present issued share capital of the Company excluding treasury shares.

The Directors intend to propose that these authorities be renewed annually.

Report of the Directors
Continued

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 988,581, approximately equal to ten per cent of the present issued share capital of the Company excluding treasury shares. The Directors intend to propose that this authority be renewed annually.

Directors

The Directors, who served throughout the year except as noted, were as follows:

Lawrence F. Bryan – Chief Executive
Lawrence Bryan is the Group's Chief Executive and President of Portmeirion USA. He first joined the Group in 1991, as Vice President, Sales of Portmeirion USA, leaving in 1994. He rejoined the Group in 1997 as President of Portmeirion USA, became a Director on 1 January 2000 and was promoted to Chief Executive on 15 August 2001. His career in the glass, ceramics and gift industry is extensive. He has previously held the positions of Vice President, Sales of Waterford Wedgwood USA, President, Waterford Wedgwood USA Retail and President of International China Company. He is a Fellow of the Royal Society of Arts.

Michael Haynes – Group Sales & Marketing Director
Michael Haynes is Group Sales & Marketing Director and was appointed to the Board on 1 January 2007. He has over 40 years experience in this field, 31 of these being in the tableware and housewares business. He joined the Group in 2004. He was an international marketing consultant for 20 years, and helped many companies increase their export sales.

Brett W. J. Phillips – Group Finance Director and Company Secretary
Brett Phillips 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.

Non-executive Directors

Richard J. Steele – appointed as Non-executive Chairman on 30 April 2007
Prior to being appointed Chairman, Dick Steele was the Senior Non-executive Director and is a Chartered Accountant and a Member of the Institute of Taxation. He has spent ten years as Group Finance Director of listed companies, latterly with Storehouse and before that Lloyds Chemists.

Janis Kong
Janis Kong is a Non-executive Director of the Royal Bank of Scotland Group PLC and Kingfisher PLC. She is a Director of VisitBritain and Chairman of the board of trustees of Forum for the Future. She is a former Executive Chairman of Heathrow Airport Limited, former Chairman of Heathrow Express Limited and a former member of the BAA plc Board. She holds an honorary Doctorate with the Open University and has received an OBE.

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

Arthur W. Ralley retired as Chairman on 30 April 2007.

Directors proposed for re-election

Richard J. Steele and Lady Judge retire by rotation at the next annual general meeting and, being eligible, offer themselves for re-election.

Report of the Directors
Continued

Directors interests
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 shown below.

	As at 31 December 2007 (or date of retirement) 5p Ordinary shares			As at 31 December 2006 5p Ordinary shares		
	Beneficial	**Non-beneficial**	**Options**	Beneficial	Non-beneficial	Options
L.F. Bryan	**150,000**	**–**	**300,000**	150,000	–	220,000
M. Haynes	**10,000**	**–**	**65,000**	10,000	–	10,000
Lady Judge	**5,000**	**–**	**–**	5,000	–	–
J. Kong	**5,000**	**–**	**–**	5,000	–	–
B.W.J. Phillips	**10,445**	**–**	**275,000**	10,455	–	220,000
A.W. Ralley[1]	**20,000**	**–**	**100,000**	20,000	–	150,000
R.J. Steele	**18,000**	**–**	**–**	18,000	–	–

[1]Arthur W. Ralley retired on 30 April 2007.

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 29 on page 51.

The Company has qualifying third party indemnity provisions for the benefit of its Directors which remain in force at the date of this report.

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

Employees' involvement
The Group recognises the importance of good communications with its employees and considers that the most effective form of communication regarding its activities, performance and plans is by way of informal daily discussions between management and other employees. During 2007, to complement these discussions, the Group has continued communicating information from Board level to all employees on a monthly basis via a programme of team briefings.

Share option and profit related bonus schemes are operated to encourage the involvement of employees in the Group's performance. Portmeirion Potteries Limited, the employer of the Group's UK based employees is an Investor in People. The Directors are committed to the continuing development of the Group's employees via the principles of Investors in People. See note 8 on page 39 for staff numbers and costs.

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

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 31 December 2007 was 34 (2006 – 35). The Company has no trade creditors.

Report of the Directors
Continued

Substantial shareholdings

In addition to the Directors' interests notified above, the Company had been notified of the following beneficial interests in 3% or more of its issued share capital excluding treasury shares as at 1 April 2008:

	Number of shares	Percentage
Fortress Finance Investment Inc*	2,578,013	26.1%
Saffery Champness Trust Corporation*	1,436,195	14.5%
Shahrzad Farhadi	632,333	6.4%
Kamrouz Farhadi	562,917	5.7%
Susan Cooper-Willis (deceased)	605,000	6.1%
Rysaffe Trustee Company (C.I.) Limited*	356,077	3.6%
Small Companies Dividend Trust Plc*	325,000	3.3%

*Shareholding held indirectly through a nominee.

Financial position

The Group's net funds at 31 December 2007 were £2.7 million (2006 – £5.2million).

Charitable and political contributions

Contributions to various charities in the form of goods during the year amounted to £1,894 (2006 – £2,417) at cost. There were no political contributions during the year.

Acquisition of the Company's own shares

The Company did not purchase any of its own shares during the year. The Company holds 677,218 treasury shares, purchased at an average cost of 187p per share.

Company status

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

Auditors

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

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

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

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

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

Annual General Meeting

The Annual General Meeting will be held at the registered office of the Company at London Road, Stoke-on-Trent, on 20 May 2008 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
1 April 2008

Directors' Remuneration Report

Introduction

As a company listed on the Alternative Investment Market (AIM), the Company is not required to comply with the Directors' Remuneration Report Regulations 2002 (the "Regulations"). Whilst the Company is not required to comply with the Regulations, it has used the Regulations as best practice guidance and voluntarily presented disclosures that reflect the extent of the Company's application of the Regulations. A resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

Unaudited information

Remuneration committee

The members of the Remuneration Committee during 2007 were R.J. Steele (Non-executive Chairman), J. Kong and Lady Judge (both independent Non-executive Directors). R.J. Steele is 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 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 1 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. The Chief Executive is provided with a car.

Annual performance related bonus

Each Executive Director's remuneration package includes a performance related bonus. If the 2008 profit before taxation (PBT) exceeds an annual target, then a bonus pool is calculated. The bonus pool is shared between the three Executive Directors in proportion to their basic salary. The bonus pool is calculated by taking a maximum of 20% of the amount by which the Group profit before taxation exceeds the target. The maximum bonus payable is 100% of basic salary.

Demanding budgets and targets are established by the Board and reviewed at the end of each year to determine the degree of successful achievement.

Directors' Remuneration Report
Continued

Share options
The Company's policy is to grant options to Directors at the discretion of the Committee taking into account individual performance. It is the Company's policy to phase the granting of share options rather than to award them in a single large block to any individual.

The Company has one share option scheme, the Portmeirion 2002 Share Option Scheme.

Options granted to the Executive Directors under the Portmeirion 2002 Share Option Scheme on 24 March 2005 can normally only be exercised if the basic earnings per share of the Group for the year ended 31 December 2007 is more than 15 per cent higher than the average of the basic earnings per share of the Group for each of the years ended 31 December 2001, 31 December 2002 and 31 December 2003.

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

Options granted to the Executive Directors under the Portmeirion 2002 Share Option Scheme on 4 April 2007 can normally only be exercised if the basic earnings per share of the Group for the year ending 31 December 2009 is more than 20 per cent higher than the basic earnings per share of the Group for the year ended 31 December 2006.

The reasons for selecting earnings per share as a measure of performance is that it directly reflects operational performance and also is a significant factor in determining the market's view of the Group's value.

Long-term incentive schemes
There are no outstanding incentives granted under long-term incentive schemes, nor are any currently planned to be awarded for the year ending 31 December 2008.

Pensions
B.W.J. Phillips, M. Haynes and A.W. Ralley are members of the Portmeirion Potteries Group Stakeholder Pension Plan, a defined contribution scheme. Details of contributions paid by the Group into the Plan for the benefit of the Directors are shown in the Directors' emoluments table that follows.

On 31 October 2002 the Portmeirion Potteries Pension Plan, a contracted-in money purchase occupational pension plan, closed. B.W.J. Phillips was a member of the plan at that time and holds preserved benefits.

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

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

Annual performance related bonuses are not subject to contributions by the Group to the money purchase pension arrangements maintained for the Directors.

Directors' Remuneration Report
Continued

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.

The details of the Executive Directors' contracts are summarised in the table below:

	Date of Contract	Notice Period
L.F. Bryan	8.11.2002	12 months
M. Haynes	1.01.2007	12 months
B.W.J. Phillips	15.03.2000	12 months
A. W. Ralley (retired 30.04.2007)	11.10.2000	12 months

In the event of early termination, the Directors' contracts provide for compensation of an amount equal to the gross salary that the executive would have received during the balance of the notice period, plus any bonus, once declared to which he would have become entitled had contractual notice been given.

Non-executive Directors

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

R. J. Steele and Lady Judge are proposed for re-election at the next Annual General Meeting. They both have contracts which provide for a notice period of one year.

Audited information

Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2007 £	2006 £
Emoluments	**600,045**	648,806
Money purchase pension contributions	**38,706**	39,594
	638,751	688,400

Directors' Remuneration Report
Continued

Directors' emoluments

	Salary & fees £	Benefits £	Bonus £	Gains made on exercise of share options £	Total £	Pension contri-butions £	2007 Total £	2006 Total £
Executive								
A.W. Ralley[1]	37,352	1,229	–	–	38,581	4,856	43,437	172,470
L.F. Bryan	154,830	11,787	15,000	–	181,617	11,360	192,977	242,321
M. Haynes[2]	120,000	941	15,000	–	135,941	7,200	143,141	(see note 2)
B.W.J. Phillips	139,000	4,906	15,000	–	158,906	15,290	174,196	212,309
Non-executive								
Lady Judge[3]	20,000	–	–	–	20,000	–	20,000	18,850
J. Kong	20,000	–	–	–	20,000	–	20,000	18,850
R.J. Steele[4]	45,000	–	–	–	45,000	–	45,000	23,600
Total	**536,182**	**18,863**	**45,000**	**–**	**600,045**	**38,706**	**638,751**	688,400

Notes
(1) A. W. Ralley retired on 30 April 2007 and figures are up to and including that date.
(2) M. Haynes was appointed on 1 January 2007.
(3) The remuneration for Lady Judge was made to BT Consulting Inc. Limited in respect of her services.
(4) The remuneration for R.J. Steele was made to Adsum Limited in respect of his services.

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

Directors' pension entitlements

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

	Accrued pension at 01.01.07 £	Increase in accrued pension in the year £	Accrued pension at 31.12.07 £
B.W.J. Phillips	20,854	791	21,645

His accrued benefits under the scheme calculated in a manner consistent with "Retirement Benefit Schemes – Transfer Values (GN11)", published by the Institute of Actuaries and the Faculty of Actuaries and adopted by the Board of Actuarial Standards, were as follows:

	Transfer value at 01.01.07 £	Contributions made by the Director £	Increase in transfer value in the period net of contributions £	Transfer value at 31.12.07 £
B.W.J. Phillips	283,683	–	18,415	302,098

Directors' Remuneration Report
Continued

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire Ordinary shares in the Company granted to or held by the Directors.

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

Director	At 01.01.07	Number of Options Granted	Exercised	Lapsed	At 31.12.07	Exercise Price	Dates on which Exercisable Earliest	Latest
The Portmeirion 2002 Share Option Scheme								
L.F. Bryan	150,000	–	–	–	150,000	167.5p	25.03.2008	23.03.2009
L.F. Bryan	70,000	–	–	–	70,000	222.5p	26.04.2009	24.04.2010
L.F. Bryan	–	80,000	–	–	80,000	345.0p	05.04.2010	03.04.2011
M. Haynes	10,000	–	–	–	10,000	222.5p	26.04.2009	24.04.2010
M. Haynes	–	55,000	–	–	55,000	345.0p	05.04.2010	03.04.2011
B.W.J. Phillips	150,000	–	–	–	150,000	167.5p	25.03.2008	23.03.2009
B.W.J. Phillips	70,000	–	–	–	70,000	222.5p	26.04.2009	24.04.2010
B.W.J. Phillips	–	55,000	–	–	55,000	345.0p	05.04.2010	03.04.2011
A.W. Ralley	150,000	–	100,000	50,000	–	167.5p	25.03.2008	23.03.2009

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

The share price reached a high of 350.0p and a low of 257.5p during 2007. The average share price during 2007 was 313.6p. The share price on 31 December 2007 was 282.5p.

A. W. Ralley exercised 41,700 share options on 5 June 2007 and 58,300 share options on 10 August 2007 in accordance with the Portmeirion 2002 Share Option Scheme provisions. The share price on those dates was 335p and 325p respectively. The gains on exercise were £69,848 on 5 June 2007 and £91,823 on 10 August 2007.

Approval

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

B.W.J. Phillips
Company Secretary
1 April 2008

Corporate Governance Statement

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

The Board

The Company is controlled by the Board of Directors. Following the retirement of A. W. Ralley on 30 April 2007, the Board comprised three Executive and three Non-executive Directors. The Board considers, after careful and rigorous review, that the Non-executive Directors bring an independent judgement to bear. All Non-executive Directors have contracts which expire on the completion of one year's notice. These are available for inspection at the Company's registered office and at the Annual General Meeting. All Directors except for the Chief Executive are subject to retirement by rotation at regular intervals in accordance with the Company's Articles of Association. Following the principles of the Code the Chief Executive, who was appointed such in 2001, intends to retire for re-election every third year.

R.J. Steele, 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. Following the appointment of R.J. Steele as Non-executive Chairman on 30 April 2007, the Board has not appointed a Senior Non-executive Director. The Board believes that, for a Board of its size, there is sufficient opportunity for shareholders to raise any concerns they may have with the Non-executive Chairman, Chief Executive, Finance Director or the other two Non-executive Directors. 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
Total meetings held	**6**	**3**	**2**	**1**
Meetings attended				
R.J. Steele (Non-executive Chairman)	6	3	2	1
L.F. Bryan (Chief Executive)	6	3*	–	1
M. Haynes (Group Sales and Marketing Director)	6	3*	–	–
Lady Judge (Non-executive)	6	3	2	1
J. Kong (Non-executive)	6	3	2	1
B.W.J. Phillips (Group Finance Director)	6	3*	–	1*
A.W. Ralley† (Executive Chairman)	2	1*	2*	1

Notes:
Attendance is shown as nil if not a committee member.

†A.W. Ralley was Executive Chairman of the Company until his retirement on 30 April 2007. He was succeeded by R.J. Steele as Non-executive Chairman.

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

Corporate Governance Statement
Continued

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 Board concluded that it had performed effectively. During the year appropriate appraisals were carried out with the Directors. The Group Finance Director and Group Sales and Marketing Director were appraised by the Chief Executive who, in turn, was appraised by the Chairman. Additionally, the Chairman appraised the Non-executive Directors and they appraised the Chairman.

Nomination Committee

The Nomination Committee is chaired by R.J. Steele and comprises all the Non-executive Directors 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 all Directors to submit themselves for re-election at least every three years.

Remuneration Committee

The Remuneration Committee is chaired by R.J. Steele and comprises all the Non-executive Directors. The Board considers it appropriate that R.J. Steele with his experience and expertise in this area chairs this committee. 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 Chief Executive is important in determining the remuneration of the other Executive Directors. The Chief Executive does not participate in discussions relating to his personal remuneration. In framing its policy the Remuneration Committee takes into account any factors which it deems necessary, including industry standard executive remuneration, differentials between executive and employee remuneration, and differentials between executives. When designing schemes of performance-related remuneration the Remuneration Committee considers the provisions in Schedule A to the Code. The remuneration of the Non-executive Directors is determined by the Executive Directors.

Audit Committee

The Audit Committee is chaired by R.J. Steele and comprises all the Non-executive Directors. The Board considers it appropriate that R.J. Steele with his experience and expertise in this area chairs this committee. 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 published in October 2005 (the Turnbull Guidance).

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.

Corporate Governance Statement
Continued

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. During the course of its reviews the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

The Board has considered the need for an internal audit function, but has decided that, because of the size of the Group and the systems and controls in place, it is not appropriate at present. The Board will review this on a regular basis.

The Group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Relations with shareholders

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

Going concern

Having made appropriate enquiries, the Directors have formed a judgement at the time of approving the financial statements that the Group has adequate resources to continue operations for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the Group financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS's. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS's are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors have elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the Directors are required to:

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PORTMEIRION GROUP PLC

We have audited the Group and parent Company financial statements (the "financial statements") of Portmeirion Group PLC for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes 1 to 33. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

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

Independent Auditors' Report
Continued

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of IAS Regulation;
- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent Company's affairs as at 31 December 2007;
- the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham, UK
1 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Revenue	4, 5	**32,017**	28,422
Operating costs	6	**(28,665)**	(25,747)
Operating profit before exceptional items		**3,352**	2,675
Exceptional items	7	**1,008**	(277)
Operating profit after exceptional items		**4,360**	2,398
Investment revenue	10	**142**	231
Finance costs	11	**(242)**	46
Share of profit of associated undertakings		**159**	58
Impairment in investment in associated undertaking		**–**	(46)
Profit before tax		**4,419**	2,687
Tax	12	**(1,393)**	(938)
Profit for the year attributable to equity holders of the parent		**3,026**	1,749
Earnings per share	14	**30.77p**	17.81p
Diluted earnings per share	14	**29.55p**	17.58p
Dividends paid and proposed per share	13	**14.70p**	14.00p

All the above figures relate to continuing operations.

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 £'000	2006 £'000
Non-current assets			
Intangible assets	15	**631**	628
Property, plant and equipment	16	**6,353**	5,767
Interests in associates	17	**1,387**	1,332
Deferred tax asset	23	**396**	1,663
Total non-current assets		**8,767**	9,390
Current assets			
Inventories	18	**9,581**	8,352
Trade and other receivables	19	**6,630**	4,467
Cash and cash equivalents	20	**2,708**	5,203
Derivative financial instruments	21	**–**	105
Assets held for sale		**–**	350
Total current assets		**18,919**	18,477
Total assets		**27,686**	27,867
Current liabilities			
Trade and other payables	22	**(4,487)**	(5,328)
Current income tax liabilities		**(121)**	(246)
Total current liabilities		**(4,608)**	(5,574)
Non-current liabilities			
Pension scheme deficit	30	**(2,498)**	(5,707)
Total non-current liabilities		**(2,498)**	(5,707)
Total liabilities		**(7,106)**	(11,281)
Net assets		**20,580**	16,586
Equity			
Called up share capital	24	**528**	523
Share premium account	25	**4,820**	4,657
Treasury shares	25	**(1,266)**	(1,266)
Share based payment reserve	25	**91**	38
Hedging and translation reserves	26	**(457)**	(502)
Retained earnings	25	**16,864**	13,136
Total equity		**20,580**	16,586

These financial statements were approved by the Board of Directors and signed on 1 April 2008 on its behalf by:

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

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 £'000	2006 £'000
Operating profit after exceptional items	**4,360**	2,398
Adjustments for:		
Depreciation	**671**	710
Amortisation of intangible fixed assets	**154**	56
Contributions to defined benefit pension scheme	**(348)**	(348)
Charge for share based payments	**53**	26
Exchange loss	**(61)**	(328)
Profit on sale of tangible fixed assets	**(1,795)**	(16)
Operating cash flows before movements in working capital	**3,034**	2,498
Increase in inventories	**(1,229)**	(2,439)
(Increase)/decrease in receivables	**(2,020)**	382
(Decrease)/increase in payables	**(841)**	2,290
Cash (absorbed by)/generated from operations	**(1,056)**	2,731
Interest paid	**(4)**	(1)
Income taxes paid	**(1,141)**	(306)
Net cash from operating activities	**(2,201)**	2,424
Investing activities		
Dividend received from associate	**83**	–
Interest received	**132**	304
Proceeds on disposal of property, plant and equipment	**2,257**	32
Purchase of property, plant and equipment	**(1,379)**	(1,676)
Purchase of intangible fixed assets	**(157)**	(607)
Purchase of treasury shares	**–**	(302)
Purchase of equity interest	**–**	(40)
Net cash inflow/(outflow) from investing activities	**936**	(2,289)
Financing activities		
Equity dividends paid	**(1,398)**	(1,305)
Shares issued under employee share schemes	**168**	79
Net cash outflow from financing activities	**(1,230)**	(1,226)
Net decrease in cash and cash equivalents	**(2,495)**	(1,091)
Cash and cash equivalents at beginning of year	**5,203**	6,294
Cash and cash equivalents at end of year	**2,708**	5,203

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2007

	2007 £'000	2006 £'000
Exchange differences on translation of foreign operations	**41**	(498)
Actuarial gain/(loss) on defined benefit pension scheme	**2,988**	(1,858)
Deferred tax on pension deficit	**(951)**	557
Net expense recognised directly in equity	**2,078**	(1,799)
Transfers		
Transferred to profit or loss on cash flow hedges	**6**	125
Tax on transfers to profit or loss on cash flow hedges	**(2)**	(37)
	2,082	(1,711)
Profit for the year	**3,026**	1,749
Total recognised income and expense for the year attributable to equity holders of the parent	**5,108**	38

Five Year Summary

CONSOLIDATED INCOME STATEMENT INFORMATION

Years ended 31 December

	2003 £'000	2004 £'000	2005 £'000	2006 £'000	**2007 £'000**
Revenue	28,512	27,686	27,552	28,422	**32,017**
Profit/(loss) before taxation	2,003	(1,265)	1,380	2,687	**4,419**
Taxation	(697)	454	(317)	(938)	**(1,393)**
Profit/(loss) attributable to equity holders of the parent	1,306	(811)	1,063	1,749	**3,026**
Earnings/(loss) per share	12.54p	(7.84)p	10.57p	17.81p	**30.77p**

CONSOLIDATED BALANCE SHEET INFORMATION

At 31 December

	2003 £'000	2004 £'000	2005 £'000	2006 £'000	**2007 £'000**
Capital employed					
Non-current assets	9,332	7,823	6,748	9,390	**8,767**
Current assets	18,871	16,839	17,450	18,477	**18,919**
Current liabilities	(3,932)	(2,653)	(3,080)	(5,574)	**(4,608)**
Provisions for liabilities	(307)	(19)	(43)	–	**–**
Pension deficit*	–	(2,358)	(2,870)	(5,707)	**(2,498)**
	23,964	19,632	18,205	16,586	**20,580**
Financed by					
Called up share capital	521	521	521	523	**528**
Share premium account and reserves	23,443	19,111	17,684	16,063	**20,052**
	23,964	19,632	18,205	16,586	**20,580**

The amounts disclosed for 2005 and earlier years are stated on the basis of UK GAAP.

* The pension deficits disclosed for 2004 and 2005 are shown net of related deferred tax. The deficits shown for 2006 and 2007 are shown gross (i.e. before the deduction of related deferred tax) as required under IFRS.

Notes to the Consolidated Financial Statements

1. Basis of preparation

Portmeirion Group PLC is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 67. The nature of the Group's operations and its principal activities are set out in the Report of the Directors on pages 9 to 13.

Prior to 2007 the Group prepared its audited financial statements under United Kingdom Generally Accepted Accounting Principles (UK GAAP). For the year ended 31 December 2007 the Group has prepared its annual consolidated financial statements in accordance with accounting standards adopted for use in the European Union (International Financial Reporting Standards (IFRS)), taking into account the requirements and options in IFRS 1 'First-time adoption of International Financial Reporting Standards', therefore the Group financial statements comply with Article 4 of the EU IAS Regulation. The transition date for the Group's application of IFRS is 1 January 2006 and the comparative figures for 31 December 2006 have been restated accordingly. Reconciliations of the income statement (previously the profit and loss account) and the balance sheet from previously reported UK GAAP to IFRS are shown in note 33.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.7.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 8 *Operating segments*
- IFRIC 11 *IFRS 2 – Group Treasury Share Transactions*
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 13 *Customer Loyalty Programmes*
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*; and
- IAS 23 (Revised) *Borrowing Costs.*

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2008.

2. Significant accounting policies

The accounting policies which follow set out those policies which were applied in preparing the financial statements for the year ended 31 December 2007. These policies have been followed in producing these financial statements.

The financial statements have been prepared on the historical cost basis, except that derivative financial instruments are stated at their fair value.

2.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Portmeirion Group PLC and its subsidiaries. The Group's share of the results and retained earnings of associated undertakings is included.

Subsidiary undertakings are consolidated on the basis of the acquisition method of accounting. Intra-group transactions and balances are eliminated fully on consolidation and the consolidated accounts reflect external transactions only. Subsidiaries' accounting policies are amended where necessary to ensure consistency with the policies adopted by the Group.

All accounts for subsidiaries and associated companies have been prepared for the year ended 31 December 2007 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 7 January 2008 and the accounts of Portmeirion Canada Inc. which have a year end of 30 June 2007. The Group accounts include interim financial information to 31 December 2007 for Portmeirion Finance Limited and the results of Portmeirion Canada Inc. for the year to 31 December 2007.

Notes to the Consolidated Financial Statements
Continued

2.2 Investment in associates
An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

2.3 Non-current assets held for sale
Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The Directors must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

2.4 Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

2.5 Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Sales of goods are recognised when goods are delivered and title has passed.

2.6 Operating leases
Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements
Continued

2.7 Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). The results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in the Group's hedging and translation reserve.

2.8 Operating profit

Operating profit is stated both before and after exceptional items but before interest received, finance costs, share of results of associates and impairment in investment in associates.

2.9 Group pension schemes

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

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

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

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

Notes to the Consolidated Financial Statements
Continued

2.10 Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.11 Property, plant and equipment
Property, plant and equipment are held at cost, net of depreciation less any provision for impairment. Depreciation is provided by either the reducing balance method or the straight line method at rates calculated to write off the cost of the assets less their estimated residual value over their expected useful lives:

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

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

Computer software is held at cost, net of depreciation less any provision for impairment. Depreciation is charged so as to write off the cost over the estimated useful economic life of the computer software using the straight-line method. The estimated useful life of computer software is between 3 and 5 years.

Notes to the Consolidated Financial Statements
Continued

2.13 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.

2.14 Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2.16 Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's development activities is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

2.17 Purchase of own shares

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

2.18 Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Derivative financial instruments

The Group's activities expose it to the financial risks of changes in foreign currency exchange rates. The Group uses foreign exchange forward contracts to hedge this exposure. The Group does not use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. Amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs.

Receivables
Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as receivables. Receivables are measured at cost, less any impairment.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Further details on the Group's financial instruments can be found in note 31.

2.19 Share-based payments
The Group has applied the requirements of IFRS 2 *Share-based Payment*. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

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

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

2.20 Segmental reporting
Activities are allocated to one business segment being consumer homeware. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns which are different from those segments operating in other economic environments.

Notes to the Consolidated Financial Statements

Continued

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Impairment of inventory

Provision is made for the impairment of slow-moving and obsolete inventory based on historical and forecast sales and estimates of net realisable value.

Defined benefit pension scheme

The valuation of the Group's defined benefit pension scheme assets and liabilities under IAS 19 requires assumptions to be made regarding returns on assets, inflation, discount rates, salary and pension increases.

4. Revenue

An analysis of the Group's revenue is as follows:

	2007 £'000	2006 £'000
Continuing operations		
Sales of goods	**32,017**	28,422
Investment income	**142**	231
	32,159	28,653

5. 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 below are broken down into the United Kingdom, United States, South Korea and the Rest of the World. These geographical segments are the basis on which the Group reports its primary segment information.

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the products:

	2007 £'000	2006 £'000
United Kingdom	**9,337**	8,457
United States	**12,181**	11,009
South Korea	**5,526**	5,590
Rest of the World	**4,973**	3,366
	32,017	28,422

Notes to the Consolidated Financial Statements
Continued

5. Segmental analysis continued

Revenue by origin	2007 Total sales £'000	2007 Inter-segment sales £'000	2007 Sales to third parties £'000	2006 Total sales £'000	2006 Inter-segment sales £'000	2006 Sales to third parties £'000
United Kingdom	**25,845**	**(5,922)**	**19,923**	23,301	(5,757)	17,544
United States	**12,094**	**–**	**12,094**	10,878	–	10,878
	37,939	**(5,922)**	**32,017**	34,179	(5,757)	28,422

Operating profit/(loss) by origin	2007 Before exceptional items £'000	2007 Operating exceptional items £'000	2007 Total £'000	2006 Before exceptional items £'000	2006 Operating exceptional items £'000	2006 Total £'000
United Kingdom	**2,431**	**1,008**	**3,439**	1,646	(277)	1,369
United States	**921**	**–**	**921**	1,029	–	1,029
Operating profit/(loss)	**3,352**	**1,008**	**4,360**	2,675	(277)	2,398
Unallocated items:						
Share of profit of associated undertakings			**159**			58
Impairment of investment in associated undertaking			**–**			(46)
Investment revenues			**142**			231
Finance costs			**(242)**			46
Profit before tax			**4,419**			2,687
Tax			**(1,393)**			(938)
Profit after tax			**3,026**			1,749

Profit before tax reconciliation	2007 £'000	2006 £'000
Pre-tax profit before exceptional items	**3,411**	2,964
Exceptional items (note 7)	**1,008**	(277)
Pre-tax profit after exceptional items	**4,419**	2,687

Notes to the Consolidated Financial Statements
Continued

5. Segmental analysis continued

Other information	2007 United Kingdom £'000	2007 United States £'000	2007 Consolidated £'000	2006 United Kingdom £'000	2006 United States £'000	2006 Consolidated £'000
Capital additions	**1,446**	**90**	**1,536**	2,211	72	2,283
Depreciation and amortisation	**759**	**66**	**825**	690	76	766
Impairment losses recognised in income	**–**	**–**	**–**	46	–	46
Balance sheet						
Assets						
Segment assets	**20,843**	**5,456**	**26,299**	22,126	4,409	26,535
Interest in associates			**1,387**			1,332
Consolidated total assets			**27,686**			27,867
Liabilities						
Segment liabilities	**6,293**	**813**	**7,106**	10,152	1,129	11,281

There are no unallocated corporate liabilities in 2007 or 2006.

6. Operating costs

	2007 Before exceptional items £'000	2007 Operating exceptional items £'000	2007 Total £'000	2006 Before exceptional items £'000	2006 Operating exceptional items £'000	2006 Total £'000
Change in stocks of finished goods and work in progress	**(1,269)**	**–**	**(1,269)**	(2,473)	–	(2,473)
Raw materials and consumables	**11,447**	**–**	**11,447**	9,757	–	9,757
Other external charges	**6,260**	**(1,319)**	**4,941**	6,133	–	6,133
Staff costs (see note 8)	**11,088**	**311**	**11,399**	11,377	277	11,654
Depreciation and other amounts written off tangible fixed assets	**671**	**–**	**671**	710	–	710
Amortisation of intangible assets	**154**	**–**	**154**	56	–	56
Movement on inventory impairment provision	**127**	**–**	**127**	21	–	21
Impairment of trade receivables	**85**	**–**	**85**	17	–	17
Research and development	**206**	**–**	**206**	188	–	188
Net foreign exchange gains	**(104)**	**–**	**(104)**	(39)	–	(39)
	28,665	**(1,008)**	**27,657**	25,747	277	26,024

Notes to the Consolidated Financial Statements
Continued

7. Exceptional items

Included in exceptional items are profit or loss on the sale of land and buildings and costs associated with leasehold property not yet operational or no longer required by the business including rent-free periods granted on sub-letting. Additional labour costs incurred in moving to and setting up the new warehouse and redundancy costs have also been included as exceptional. The analysis of exceptional items is as follows:

	2007 £'000	2006 £'000
Profit on sale of freehold land & buildings	**1,783**	–
Costs associated with assignment of leasehold property	**(126)**	–
Redundancy costs	**(108)**	(277)
Costs associated with implementation of new warehouse	**(541)**	–
	1,008	(277)

8. Staff numbers and costs

	2007 Number	2006 Number
The average number of persons employed during the year, including Directors:		
Operatives	**287**	321
Staff	**229**	216
	516	537

	£'000	£'000
Staff costs:		
Wages and salaries	**9,763**	9,965
Social security costs	**793**	809
Defined contribution and money purchase pension schemes costs	**667**	696
Non-monetary benefits	**176**	184
	11,399	11,654

The Company had no employees throughout 2007.

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.

Notes to the Consolidated Financial Statements
Continued

9. Auditors' remuneration

	2007 £'000	2006 £'000
Fees payable to the Group's auditors for the audit of the Group's annual accounts	**59**	58
Total audit fees	**59**	58
Fees payable to the Group's auditors and their associates for other services to the Group		
Tax services	**–**	–
Other services	**9**	5
Total non-audit fees	**9**	5
Fees payable to the Group's auditors and their associates in respect of associated pension schemes		
Audit of the Portmeirion Potteries Limited Retirement Benefit Scheme	**4**	4
	4	4

The audit fee for the Company was £2,000 (2006 – £2,000).

Fees payable to Deloitte & Touche LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

10. Investment revenue

	2007 £'000	2006 £'000
Bank deposits	**121**	229
Other interest receivable	**21**	2
	142	231

11. Finance costs

	2007 £'000	2006 £'000
Interest paid	**4**	1
Losses/(gains) on financial derivatives	**111**	(111)
Defined benefit pension scheme – other finance costs	**127**	64
	242	(46)

Notes to the Consolidated Financial Statements
Continued

12. Taxation on profit on ordinary activities

	2007 £'000	2006 £'000
United Kingdom corporation tax at 30% (2006 – 30%)	**814**	545
Adjustment to corporation tax in respect of prior years	**4**	56
Overseas taxation	**341**	377
Double tax relief	**(143)**	(134)
Current taxation	**1,016**	844
Deferred taxation origination and reversal of timing differences	**376**	38
Adjustment to deferred taxation in respect of prior years	**(61)**	(30)
Pension scheme	**62**	86
Deferred taxation	**377**	94
	1,393	938

Corporation tax is calculated at 30% (2006 – 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% (2006 – 30%). The actual tax charge for the current and the previous year differs from the standard rate for the reasons set out in the following reconciliation:

	2007 £'000	2006 £'000
Profit on ordinary activities before taxation	**4,419**	2,687
Tax on profit on ordinary activities at standard rate of 30%	**1,326**	806
Factors affecting charge for the period:		
Effect of change in tax rate	**(24)**	–
Expenses not deductible for tax purposes	**236**	32
Small companies tax relief	**(7)**	–
Foreign tax charged at higher rates than UK standard rate	**85**	227
Adjustments to tax charge in respect of prior periods	**(57)**	25
Difference relating to associates tax charge	**(23)**	(18)
Double tax relief	**(143)**	(134)
Total actual amount of tax on profit on ordinary activities	**1,393**	938

Notes to the Consolidated Financial Statements
Continued

PORTMEIRION

13. Dividends paid

	2007 £'000	2006 £'000
Final dividend of 10.70p per share paid in respect of the year ended 31 December 2006 (2006 – final dividend of 9.95p per share paid in respect of the year ended 31 December 2005)	**1,047**	982
Interim dividend of 3.55p per share paid in respect of the year ended 31 December 2007 (2006 – Interim dividend of 3.30p per share paid in respect of the year ended 31 December 2006)	**351**	323
Total dividends paid in the year	**1,398**	1,305

The Directors recommend that a final dividend of 11.15p (2006 – 10.70p) per share be paid, making a total for the year of 14.70p (2006 – 14.00p) per share. The final dividend will be paid, subject to shareholders' approval, on 23 May 2008, to shareholders on the register at the close of business on 25 April 2008. This dividend has not been included as a liability in these financial statements.

14. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

		2007			2006	
	Earnings £	**Weighted Number of Shares**	**Earnings per Share (Pence)**	Earnings £	Weighted Number of Shares	Earnings per Share (Pence)
Basic earnings per share	**3,026,000**	**9,832,804**	**30.77**	1,749,000	9,818,990	17.81
Effect of dilutive securities:						
employee share options	**–**	**408,463**	**–**	–	131,701	–
Diluted earnings per share	**3,026,000**	**10,241,267**	**29.55**	1,749,000	9,950,691	17.58

15. Intangible assets

	Computer Software £'000	Intellectual Property £'000	Total £'000
Cost			
At 1 January 2006	136	–	136
Additions	83	524	607
At 1 January 2007	219	524	743
Additions	157	–	157
At 31 December 2007	**376**	**524**	**900**
Amortisation			
At 1 January 2006	59	–	59
Charge for the year	34	22	56
At 1 January 2007	93	22	115
Charge for the year	49	105	154
At 31 December 2007	**142**	**127**	**269**
Net book value			
At 31 December 2007	**234**	**397**	**631**
At 31 December 2006	126	502	628

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

Notes to the Consolidated Financial Statements
Continued

16. Property, plant and equipment

	Land and buildings			
	Freehold £'000	Short leasehold £'000	Plant and vehicles £'000	Total £'000
Cost				
At 1 January 2006	5,188	510	11,346	17,044
Additions	6	354	1,316	1,676
Disposals	–	–	(167)	(167)
Exchange adjustments	(103)	(16)	(44)	(163)
Reclassified as held for sale	(415)	–	–	(415)
At 1 January 2007	**4,676**	**848**	**12,451**	**17,975**
Additions	2	28	1,349	1,379
Disposals	(82)	–	(170)	(252)
Exchange adjustments	(12)	(2)	(5)	(19)
At 31 December 2007	**4,584**	**874**	**13,625**	**19,083**
Depreciation				
At 1 January 2006	1,489	465	9,832	11,786
Charge for the year	87	20	603	710
On disposals	–	–	(151)	(151)
Exchange adjustments	(25)	(14)	(33)	(72)
On assets reclassified as held for sale	(65)	–	–	(65)
At 1 January 2007	**1,486**	**471**	**10,251**	**12,208**
Charge for the year	29	15	627	671
On disposals	–	–	(140)	(140)
Exchange adjustments	(3)	(2)	(4)	(9)
At 31 December 2007	**1,512**	**484**	**10,734**	**12,730**
Net book value				
At 31 December 2007	**3,072**	**390**	**2,891**	**6,353**
At 31 December 2006	3,190	377	2,200	5,767

At 31 December 2007, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £nil (2006 – £899,000).

Notes to the Consolidated Financial Statements
Continued

17. Interests in associates

	2007 £'000	2006 £'000
Associated undertakings:		
Furlong Mills Limited		
2,080 Ordinary shares of £1 each representing 27.58% of the issued share capital		
Share of net assets	**1,249**	1,218
Discount on acquisition	**(13)**	(13)
Impairment of investment in Furlong Mills Limited	**(553)**	(553)
	683	652
Portmeirion Canada Inc.		
100 common shares representing 50% of the issued share capital		
Share of net assets	**704**	680
	1,387	1,332

Aggregated amounts relating to associates

	2007 £'000	2006 £'000
Total assets	**5,611**	4,630
Total liabilities	**(2,045)**	(1,435)
Revenues	**9,624**	8,208
Profit before tax	**275**	104

A list of the significant investments in subsidiaries and associates, including the name, country of incorporation and proportion of ownership interest is given in note c to the Company's separate financial statements.

18. Inventories

	2007 £'000	2006 £'000
Raw materials and other consumables	**1,094**	1,007
Work in progress	**2,323**	1,574
Finished goods	**6,164**	5,771
	9,581	8,352

Notes to the Consolidated Financial Statements
Continued

19. Trade and other receivables

	2007 £'000	2006 £'000
Amount receivable for the sale of goods	**5,569**	3,924
Allowance for doubtful debts	**(181)**	(133)
Trade receivables	**5,388**	3,791
Amounts owed by associated undertakings	**530**	84
Other receivables	**143**	50
Prepayments and accrued income	**569**	542
	6,630	4,467

Generally no interest is charged on receivables, however there is provision in the Group's terms and conditions for interest to be charged on late payments. The allowance for doubtful debts has been determined by reference to past default experience and a review of specific customers debts as at the year end.

Included in the Group's trade receivable balance are debtors with a carrying amount of £1,348,000 (2006 – £814,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 49 days (2006 – 51 days).

Ageing of past due but not impaired receivables

	2007 £'000	2006 £'000
30-60 days	**603**	269
60-90 days	**424**	331
90-120 days	**321**	214
Total	**1,348**	814

Movement in the allowance for doubtful debts

	2007 £'000	2006 £'000
Balance at the beginning of the year	**133**	125
Impairment losses recognised	**85**	17
Amounts written off as uncollectible	**(37)**	(9)
Balance at the end of the year	**181**	133

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Notes to the Consolidated Financial Statements
Continued

19. Trade and other receivables continued

Ageing of impaired trade receivables

	2007 £'000	2006 £'000
120+ days	**68**	53

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of £60,000 (2006 – £43,000) which have been placed under liquidation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

20. Cash and cash equivalents

	2007 £'000	2006 £'000
Cash and cash equivalents	**2,708**	5,203

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

Notes to the Consolidated Financial Statements
Continued

21. Derivative financial instruments

	Current 2007 £'000	2006 £'000
Financial assets carried at fair value through profit or loss (FVTPL)		
Held for trading derivatives that are not designated in hedge accounting relationships:		
Foreign currency forward contracts	**–**	105
	–	105

Further details on derivative financial instruments are shown in note 31 Financial instruments.

22. Other financial liabilities

Trade and other payables

	2007 £'000	2006 £'000
Trade creditors and accruals	**3,821**	4,142
Other taxation and social security	**206**	458
Other creditors	**460**	728
	4,487	5,328

Trade creditors and accruals principally comprise amounts outstanding for trade purchases, ongoing costs and other indirect taxes. The average credit period taken for trade purchases is 34 days. For most suppliers no interest is charged on the trade payables from the date of invoice to the end of the following month. Thereafter, interest may be charged on the outstanding balances at various interest rates. The Group's policy is to pay all payables within the credit timeframe.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

Notes to the Consolidated Financial Statements
Continued

23. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £'000	Revaluation of financial assets £'000	Retirement benefit obligations £'000	Share based payment £'000	Capital gain held over £'000	Other timing differences £'000	Total £'000
At 1 January 2006	173	(39)	(1,240)	–	–	(130)	(1,236)
Charge/(credit) to income	53	–	86	–	–	(45)	94
Charge/(credit) to equity	–	37	(558)	–	–	–	(521)
At 1 January 2007	226	(2)	(1,712)	–	–	(175)	(1,663)
Charge/(credit) to income	109	–	62	(17)	281	(19)	416
Charge/(credit) to equity	–	2	837	(66)	–	–	773
Effect of change in tax rate							
– income statement	(15)	–	–	1	–	(25)	(39)
– equity	–	–	114	3	–	–	117
As at 31 December 2007	**320**	**–**	**(699)**	**(79)**	**281**	**(219)**	**(396)**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2007 £'000	2006 £'000
Deferred tax liabilities	**601**	226
Deferred tax assets	**(997)**	(1,889)
	(396)	(1,663)

At the balance sheet date, the Group had unused tax capital losses of £699,000 (2006 – £697,000) available for offset against future profits. A deferred tax asset has not been recognised in respect of such losses as the Group does not anticipate suitable taxable profits to arise in this respect within the foreseeable future.

Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

Notes to the Consolidated Financial Statements
Continued

24. Share capital

	2007 Number '000	2007 £'000	2006 Number '000	2006 £'000
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	**10,563**	**528**	10,463	523

The market price of the Company's shares at 31 December 2007 was 282.5p per share. During the year the price ranged between 257.5p and 350.0p per share.

A. W. Ralley was allotted 41,700 Ordinary shares of 5p each on 5 June 2007 and 58,300 Ordinary shares of 5p each on 10 August 2007 in accordance with the retirement provisions in the Portmeirion 2002 Share Option Scheme, for a total cash consideration of £167,500 being 167.5p per share.

The Company has one class of ordinary shares which carry no right to fixed income.

Options granted to Directors and employees to acquire Ordinary shares of 5p in the Company and still outstanding at 31 December 2007 were as follows:

	Number of shares	Exercise price per share (p)	Dates on which exercisable Earliest	Dates on which exercisable Latest
The Portmeirion 2002 Share Option Scheme	300,000	167.5	25.03.2008	23.03.2009
The Portmeirion 2002 Share Option Scheme	190,000	222.5	26.04.2009	24.04.2010
The Portmeirion 2002 Share Option Scheme	250,000	345.0	05.04.2010	03.04.2011

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

25. Share premium account and reserves

	Share premium account £'000	Treasury shares £'000	Share based payment reserve £'000	Retained earnings £'000
As at 1 January 2006	4,580	(964)	12	14,033
Profit for the financial year	–	–	–	1,749
Dividends paid	–	–	–	(1,305)
Increase in share based payment reserve	–	–	26	–
Movement in pension scheme liability net of related deferred tax	–	–	–	(1,301)
Premium on shares issued under option scheme	77	–	–	–
Purchase of own shares	–	(302)	–	–
Purchase of equity interest	–	–	–	(40)
As at 1 January 2007 as restated	4,657	(1,266)	38	13,136
Profit for the financial year	–	–	–	3,026
Dividends paid	–	–	–	(1,398)
Increase in share based payment reserve	–	–	53	–
Movement in pension scheme liability net of related deferred tax	–	–	–	2,037
Premium on shares issued under option scheme	163	–	–	–
Deferred tax on share based payment	–	–	–	63
As at 31 December 2007	**4,820**	**(1,266)**	**91**	**16,864**

The cumulative amount of goodwill written off at 31 December 2007 was £515,000 (2006 – £515,000). The retained earnings of £16,864,000 (2006 – £13,136,000) includes the Group's share of associated undertakings' post acquisition reserves of £1,998,000 (2006 – £1,810,000).

The Group currently holds 677,218 Ordinary shares of 5p each in treasury.

Notes to the Consolidated Financial Statements
Continued

26. Hedging and translation reserves

	Hedging reserve £'000	Translation reserve £'000	Total £'000
Balance as at 1 January 2006	(92)	–	(92)
Exchange differences on translation of overseas operations	–	(498)	(498)
Transfer to income	125	–	125
Income tax related to losses transferred to income	(37)	–	(37)
Balance as at 1 January 2007	(4)	(498)	(502)
Exchange differences on translation of overseas operations	–	41	41
Transfer to income	6	–	6
Income tax related to losses transferred to income	(2)	–	(2)
Balance as at 31 December 2007	**–**	**(457)**	**(457)**

27. Commitments

Operating lease arrangements

The Group as lessee

	2007 £'000	2006 £'000
Minimum lease payments under operating leases recognised as an expense in the year	**716**	537

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2007 £'000	2006 £'000
Within one year	**726**	531
In the second to fifth years inclusive	**2,482**	1,987
After five years	**3,002**	3,195

There were no capital commitments at 31 December 2007 (2006 – £899,000).

Operating lease payments represent rentals payable by the Group for certain of its UK retail outlets, its UK warehouses, certain UK motor vehicles and its New York offices and showroom. Leases are negotiated on an individual basis.

Notes to the Consolidated Financial Statements
Continued

28. 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 31 December 2007 the gross borrowings of Portmeirion Potteries Limited and Portmeirion Finance Limited amounted to £nil (2006 – £nil).

29. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below. Transactions between the Company and its subsidiaries and associates are disclosed in note g on page 66.

The transactions during the year with associated undertakings were:

	Purchases 2007 £'000	Purchases 2006 £'000	**Sales 2007 £'000**	Sales 2006 £'000
Portmeirion Canada Inc.	**–**	–	**1,772**	1,195
Furlong Mills Ltd	**515**	542	**–**	–

The outstanding balances at 31 December 2007, with associated undertakings were:

	Debtor 2007 £'000	Debtor 2006 £'000	**Creditor 2007 £'000**	Creditor 2006 £'000
Portmeirion Canada Inc.	**522**	81	**–**	–
Furlong Mills Ltd	**8**	3	**–**	–

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

Sales to Portmeirion Canada Inc. are made at prices agreed between Portmeirion Potteries Limited and Portmeirion Canada Inc.

Purchases from Furlong Mills Limited are made at prices agreed between Portmeirion Potteries Limited and Furlong Mills Limited. Portmeirion Potteries Limited receives a rebate related to its level of purchases from Furlong Mills Limited.

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 apart from B.W.J. Phillips who made purchases of £292 (2006 – £616) and R.J. Steele who made purchases of £845 (2006 – £88) from the Group.

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

Notes to the Consolidated Financial Statements
Continued

30. Pensions

The Group operates a Group stakeholder pension plan in the UK and a discretionary money purchase scheme in the US.

The total cost charged to income of £667,000 (2006: £696,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 December 2007 and 31 December 2006 all contributions due in respect of each reporting period had been paid over to the schemes.

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

For the defined benefit scheme, the most recent triennial valuation was at 6 April 2005. The main actuarial assumptions used in the valuation were:

- Price inflation of 2.75% per annum
- Pre-retirement valuation rate of interest of 6.75% per annum
- Post-retirement valuation rate of interest of 4.75% per annum
- Increases to pensions in payment of 5.00% per annum on benefits in excess of the guaranteed minimum pension (GMP) earned prior to 6 April 1997 and 2.75% per annum on pensions earned after 6 April 1997.

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

The Group has applied IAS 19 "Retirement Benefits" in full.

The actuarial valuation of the scheme was updated as at 31 December 2007 and 31 December 2006 by qualified actuaries.

The major assumptions used by the actuaries were:

	2007	2006	2005
Rate of increase in salaries	**n/a**	n/a	n/a
Rate of increase in pensions in payment:			
Post 06.04.88 GMP	**3.00%**	3.00%	3.00%
Pre 06.04.97 excess over GMP	**5.00%**	5.00%	5.00%
Post 06.04.97 pension	**3.30%**	3.25%	2.75%
Rate of revaluation of pensions in deferment	**3.40%**	3.25%	2.75%
Rate used to discount scheme liabilities	**5.90%**	5.10%	4.75%
Inflation assumption	**3.40%**	3.25%	2.75%

Notes to the Consolidated Financial Statements
Continued

30. Pensions continued

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit scheme is as follows:

	2007		2006	
	Expected rate of return	**Fair value £'000**	Expected rate of return	Fair value £'000
Equities	**6.50%**	**12,763**	6.60%	12,578
Bonds	**4.50%**	**7,010**	4.60%	6,456
Insured annuities	**5.90%**	**311**	5.10%	351
Cash	**5.00%**	**94**	5.00%	12
Total fair value of assets		**20,178**		19,397
Present value of defined benefit obligations		**(22,676)**		(25,104)
Deficit in the scheme		**(2,498)**		(5,707)

Analysis of the amount charged to operating profit:	**2007 £'000**	2006 £'000
Current service cost	**–**	–
Past service cost	**–**	–
	–	–

Analysis of the amount charged to other finance costs:	**2007 £'000**	2006 £'000
Expected return on pension scheme assets	**1,138**	955
Interest on pension scheme liabilities	**(1,265)**	(1,019)
Amount charged to other finance costs	**(127)**	(64)

The cumulative amount of actuarial gains and losses recognised in the statement of recognised income and expense since adoption of IFRS is a gain of £1,130,000 (2006 – loss of £1,858,000).

Analysis of the actuarial gain/(loss) recognised in the statement of recognised income and expense:	**2007 £'000**	2006 £'000
Actuarial return less expected return on pension scheme assets	**(104)**	998
Experience gains and losses arising on the scheme liabilities	**–**	–
Changes in assumptions underlying the present value of the scheme liabilities	**3,092**	(2,856)
Actuarial gain/(loss) recognised in the statement of recognised income and expense	**2,988**	(1,858)

Notes to the Consolidated Financial Statements
Continued

30. Pensions continued

Movements in the present value of defined benefit obligations were as follows:

	2007 £'000	2006 £'000
At 1 January	**25,104**	21,636
Service cost	**–**	–
Interest cost	**1,265**	1,019
Actuarial gains and losses	**(3,092)**	2,856
Benefits paid	**(601)**	(407)
At 31 December 2007	**22,676**	25,104

Movements in the fair value of scheme assets were as follows:

	2007 £'000	2006 £'000
At 1 January 2007	**19,397**	17,503
Expected return on scheme assets	**1,138**	955
Actuarial gains and losses	**(104)**	998
Contributions by the employer	**348**	348
Benefits paid	**(601)**	(407)
At 31 December 2007	**20,178**	19,397

The history of experience adjustments is as follows:

	2007 £'000	2006 £'000
Present value of defined benefit obligations	**(22,676)**	(25,104)
Fair value of scheme assets	**20,178**	19,397
Deficit in the scheme	**(2,498)**	(5,707)
Experience adjustments on scheme liabilities Amount (£)	**3,092**	(2,856)
Percentage of scheme liabilities (%)	**14%**	11%
Experience adjustments on scheme assets Amount (£)	**(104)**	998
Percentage of scheme assets (%)	**1%**	5%

The estimated amount of contributions expected to be paid to the scheme during the current financial year is £348,000.

Following the decision to close the scheme with effect from 5 April 1999 formal notice was given to employees in January 1999. A defined contribution pension scheme commenced on 6 April 1999 for all eligible UK employees. This scheme was closed on 31 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 £67,000 at 31 December 2007 (2006 – £78,000).

31. Financial instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Financial risk management objectives

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising capital, reserves and retained earnings as disclosed in notes 24 to 26.

Credit risk

The Group's principal financial assets are cash, short term deposits and trade receivables. The Group's policy is to place funds on short-term deposit with highly rated institutions. Accounts receivable are monitored closely and provisions are made for bad and doubtful debts where appropriate. The credit-worthiness of customers is assessed prior to opening new accounts and on a regular basis for significant customers.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

Notes to the Consolidated Financial Statements
Continued

31. Financial instruments continued

Currency exchange rate risk

The Group has exposure to foreign currency risk arising from its net investments in and cash flows from overseas subsidiaries and associates. Its policy in managing this risk is to maintain appropriate levels of net assets in the overseas companies and utilise foreign currency forward contracts. The most significant exposure to foreign currency arises from the US Dollar sales made by the UK subsidiary to the US subsidiary. The Group's net US Dollar exposure for the coming year is not significant. No forward contracts have been placed for 2008.

The Group enters into derivative transactions only to manage exposure arising from its underlying businesses. No speculative derivative contracts are entered into.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Euro	**161**	83	**757**	588
US Dollar	**1,250**	1,454	**2,764**	2,240
Canadian Dollar	**–**	–	**453**	41
Swedish Krona	**–**	–	**13**	–

Foreign currency sensitivity analysis

The Group is mainly exposed to the currencies of Euro, US Dollar, Canadian Dollar and Swedish Krona.

The following table details the Group's sensitivity to a 10% increase and decrease in Sterling against the relevant foreign currencies. 10% is the sensitivity rate which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. A negative number below indicates a decrease in profit and other equity where Sterling strengthens 10% against the relevant currency. For a 10% weakening of Sterling against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

	Euro impact		US Dollar impact		Canadian Dollar impact		Swedish Krona impact	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000	**2007 £'000**	2006 £'000	**2007 £'000**	2006 £'000
Profit or loss	**(54)**	(45)	**(49)**	(39)	**(41)**	(4)	**(1)**	–
Other equity	**–**	–	**(88)**	(32)	**–**	–	**–**	–

Notes to the Consolidated Financial Statements
Continued

31. Financial instruments continued

Forward foreign exchange contracts

Outstanding contracts

	Average exchange rate		Foreign currency		Contract value		Fair value	
	2007 rate	2006 rate	**2007 $'000**	2006 $'000	**2007 £'000**	2006 £'000	**2007 £'000**	2006 £'000
Held for trading (less than 12 months)								
Sell US Dollars	**–**	1.8040	**–**	2,400	**–**	1,330	**–**	105

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The following table details the Group's liquidity analysis for its derivative financial instruments.

	1 month to 1 year	
Gross settled	**2007**	2006
Foreign exchange forward contracts	**–**	1,330

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

2006	Less than 1 month £'000	1-3 months £'000	Over 3 months £'000	**Total £'000**
Non-interest bearing	2,487	504	–	2,991
2007				
Non-interest bearing	**2,151**	**605**	**–**	**2,756**

Notes to the Consolidated Financial Statements
Continued

31. Financial instruments continued

The following tables detail the Group's expected maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

2006	Weighted average effective interest rate %	Less than 1 month £'000	1-3 months £'000	Over 3 months £'000	Total £'000
Non-interest bearing	–	2,583	1,630	–	4,213
Variable interest rate instruments	2.70	1,417	–	–	1,417
Fixed interest rate instruments	5.02	3,445	–	–	3,445
		7,445	1,630	–	9,075

2007	**Weighted average effective interest rate %**	**Less than 1 month £'000**	**1-3 months £'000**	**Over 3 months £'000**	**Total £'000**
Non-interest bearing	**–**	**4,087**	**2,254**	**–**	**6,341**
Variable interest rate instruments	**2.26**	**320**	**–**	**–**	**320**
Fixed interest rate instruments	**4.79**	**1,953**	**–**	**–**	**1,953**
		6,360	**2,254**	**–**	**8,614**

The Group has access to an overdraft facility, the total unused amount of which is £750,000 at the balance sheet date. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

32. Share based payments

Equity-settled share option scheme

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

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

	2007		2006	
	Number of share options	**Weighted average exercise price £**	Number of share options	Weighted average exercise price £
Outstanding as at 1 January	**640,000**	**1.838**	610,000	1.730
Granted during the year	**250,000**	**3.450**	190,000	2.225
Lapsed during the year	**(50,000)**	**1.675**	(10,000)	1.924
Surrendered during the year	**–**		(108,200)	1.875
Exercised during the year	**(100,000)**	**1.675**	(41,800)	1.898
Outstanding as at 31 December	**740,000**	**2.416**	640,000	1.838
Exercisable as at 31 December	**–**		–	

The weighted average share price at the date of exercise for share options exercised during the period was £3.296. The options outstanding at 31 December 2007 had a weighted average exercise price of £2.416 and a weighted average remaining contractual life of 2.2 years. In 2007, options were granted on 4 April. The aggregate of the estimated fair value of those options is £112,855. In 2006, options were granted on 25 April. The aggregate of the estimated fair value of those options is £44,736.

32. Share based payments continued

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

	2007	2006
Weighted average share price at date of grant	**£3.40**	£2.200
Weighted average exercise price	**£3.45**	£2.225
Expected volatility	**19%**	21%
Expected life	**3.5 years**	3.5 years
Risk-free rate	**5.34%**	4.65%
Expected dividend rate	**4.12%**	6.00%

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

The Group recognised total expenses of £53,000 and £26,000 related to equity share-based payment transactions in 2007 and 2006 respectively.

33. Explanation of transition to IFRS

As explained in note 1, these are the Group's first financial statements prepared for the first year in which financial statements will be prepared in accordance with International Financial Reporting Standards (IFRS).

The accounting policies in note 2 have been applied in preparing these financial statements, and in preparing an opening IFRS balance sheet as at 1 January 2006 (the Group's date of transition). The preparation of these financial statements has required the adjustment of amounts previously reported in financial statements prepared in accordance with UK GAAP.

As required by IFRS 1 "First time adoption of international reporting standards" an explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position is set out in the tables below. The adjustments shown in the tables are:

(i) The effect of the change to valuing pension scheme assets at bid rather than mid price as required by IAS 19 "Employee Benefits", and grossing up for deferred tax.

(ii) The effect of the revised treatment of the Group's forward currency exchange contracts as required by IAS 39 "Financial Instruments: Recognition and Measurement".

(iii) The reclassification of interest paid to finance costs.

(iv) The disclosure of share of profit of associated undertakings net of income taxes.

(v) The reclassification of computer software assets as intangible assets.

(vi) The separate disclosure of income taxes payable or recoverable.

(vii) The reclassification of premises being marketed for sale as an asset held for sale in current assets.

There is no impact from IFRS adoption on the cash flow.

Notes to the Consolidated Financial Statements
Continued

33. Explanation of transition to IFRS continued

Reconciliation of consolidated income statement for the year ended 31 December 2006

	UK GAAP £'000	IAS 19 £'000	IAS 39 £'000	Other IFRS Reclassifi-cations £'000	IFRS £'000
Revenue	**28,422**	**–**	**–**	**–**	**28,422**
Operating costs	(25,747)	–	–	–	(25,747)
Operating profit before exceptional items	**2,675**	**–**	**–**	**–**	**2,675**
Exceptional items	(277)	–	–	–	(277)
Operating profit after exceptional items	**2,398**	**–**	**–**	**–**	**2,398**
Interest receivable from bank deposits	231	–	–	–	231
Interest payable	(1)	–	–	1	–
Finance costs	(62)	(2)	111	(1)	46
Share of profit of associated undertakings	64	–	–	(6)	58
Impairment in investment in associated undertaking	(46)	–	–	–	(46)
Profit before tax	**2,584**	**(2)**	**111**	**(6)**	**2,687**
Income tax	(912)	1	(33)	6	(938)
Profit for the year	**1,672**	**(1)**	**78**	**–**	**1,749**
Earnings per share	**17.03p**				**17.81p**
Diluted earnings per share	**16.80p**				**17.58p**

Notes to the Consolidated Financial Statements
Continued

33. Explanation of transition to IFRS continued

Reconciliation of consolidated balance sheet as at 1 January 2006

	As at 01.01.06 UK GAAP £'000	IAS 19 £'000	IAS 39 £'000	Other IFRS Reclassifi-cations £'000	As at 01.01.06 IFRS £'000
Non-current assets					
Property, plant and equipment	5,335	–	–	(77)	5,258
Intangible assets	–	–	–	77	77
Interests in associates	1,413	–	–	–	1,413
Total non-current assets	6,748	–	–	–	6,748
Current assets					
Inventories	5,913	–	–	–	5,913
Trade and other receivables	5,243	–	–	(321)	4,922
Current income tax receivable	–	–	–	321	321
Cash and cash equivalents	6,294	–	–	–	6,294
Total current assets	17,450	–	–	–	17,450
Total assets	**24,198**	**–**	**–**	**–**	**24,198**
Current liabilities					
Trade and other payables	(3,080)	–	–	42	(3,038)
Current income tax liabilities	–	–	–	(42)	(42)
Derivative financial instruments	–	–	(131)	–	(131)
Total current liabilities	(3,080)	–	(131)	–	(3,211)
Non-current liabilities					
Deferred income tax liabilities	(43)	–	39	–	(4)
Pension scheme deficit	(2,870)	(23)	–	–	(2,893)
Total non-current liabilities	(2,913)	(23)	39	–	(2,897)
Total liabilities	**(5,993)**	**(23)**	**(92)**	**–**	**(6,108)**
Net assets	**18,205**	**(23)**	**(92)**	**–**	**18,090**
Equity					
Called up share capital	521	–	–	–	521
Share premium account	4,580	–	–	–	4,580
Treasury shares	(964)	–	–	–	(964)
Share based payment reserve	12	–	–	–	12
Cash flow hedging reserve	–	–	(131)	–	(131)
Tax on cash flow hedging reserve	–	–	39	–	39
Retained earnings	14,056	(23)	–	–	14,033
Total equity	**18,205**	**(23)**	**(92)**	**–**	**18,090**

Notes to the Consolidated Financial Statements
Continued

33. Explanation of transition to IFRS continued

Reconciliation of balance sheet as at 31 December 2006

	As at 31.12.06 UK GAAP £'000	IAS 19 £'000	IAS 39 £'000	Other IFRS Reclassifi-cations £'000	As at 31.12.06 IFRS £'000
Non-current assets					
Property, plant and equipment	6,243	–	–	(476)	5,767
Intangible assets	502	–	–	126	628
Interests in associates	1,332	–	–	–	1,332
Deferred tax asset	–	1,663	–	–	1,663
Total non-current assets	8,077	1,663	–	(350)	9,390
Current assets					
Inventories	8,352	–	–	–	8,352
Trade and other receivables	4,467	–	–	–	4,467
Cash and cash equivalents	5,203	–	–	–	5,203
Derivative financial instruments	–	–	105	–	105
Assets held for sale	–	–	–	350	350
Total current assets	18,022	–	105	350	18,477
Total assets	**26,099**	**1,663**	**105**	**–**	**27,867**
Current liabilities					
Trade and other payables	(5,524)	–	–	196	(5,328)
Current income tax liabilities	(17)	–	(33)	(196)	(246)
Total current liabilities	(5,541)	–	(33)	–	(5,574)
Non-current liabilities					
Deferred income tax liabilities	(51)	49	2	–	–
Pension scheme deficit	(3,969)	(1,738)	–	–	(5,707)
Total non-current liabilities	(4,020)	(1,689)	2	–	(5,707)
Total liabilities	**(9,561)**	**(1,689)**	**(31)**	**–**	**(11,281)**
Net assets	**16,538**	**(26)**	**74**	**–**	**16,586**
Equity					
Called up share capital	523	–	–	–	523
Share premium account	4,657	–	–	–	4,657
Treasury shares	(1,266)	–	–	–	(1,266)
Share based payment reserve	38	–	–	–	38
Hedging and translation reserve	–	–	(4)	(498)	(502)
Retained earnings	12,586	(26)	78	498	13,136
Total equity	**16,538**	**(26)**	**74**	**–**	**16,586**

Company Balance Sheet

	Notes	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Fixed assets					
Investment in subsidiary undertakings	c		**1,455**		1,455
Current assets					
Debtors – of which £10,911,000 (2006 – £10,911,000) falls due after more than one year	d	**10,911**		10,938	
Creditors: amounts falling due within one year	e	**(7,154)**		(5,941)	
Net current assets			**3,757**		4,997
Net assets			**5,212**		6,452
Capital and reserves					
Called up share capital	f		**528**		523
Share premium account	f		**4,820**		4,657
Other reserves	f		**197**		197
Treasury shares	f		**(1,266)**		(1,266)
Share based payment reserve	f		**91**		38
Retained earnings	f		**842**		2,303
Equity shareholders' funds			**5,212**		6,452

These financial statements were approved by the Board of Directors and signed on 1 April 2008 on its behalf by:

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

Company Reconciliation of Movements in Shareholders' Equity

	2007 £'000	2006 £'000
Opening balance	**6,452**	8,087
Loss for the year	**(63)**	(133)
Dividends paid	**(1,398)**	(1,305)
Shares issued under employee share schemes	**168**	79
Increase in share based payment reserve	**53**	26
Purchase of treasury shares	**–**	(302)
Closing balance	**5,212**	6,452

Equity comprises share capital, share premium, equity reserves, treasury shares and retained earnings.

Notes to the Company Financial Statements

a. Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Investments

Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment.

b. Profit for the year

As permitted by section 230 of the Companies Act 1985 the Company has elected not to present its own profit and loss account for the year. Portmeirion Group PLC reported a consolidated profit for the year ended 31 December 2007 of £3,026,000 (2006 – £1,749,000), which includes a loss of £63,000 (2006 – loss of £133,000) which is dealt with in the financial statements of the Company.

The auditors' remuneration for audit and other services is disclosed in note 9 to the consolidated financial statements.

c. Fixed asset investment

Subsidiary undertakings:

	2007 £'000	2006 £'000
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

There have been no additions or disposals of subsidiaries in the year nor provisions for impairments.

At 31 December 2007 the Company had the following subsidiary and associated undertakings:

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

The companies are incorporated in the UK and registered in England and Wales except where stated.

The share capital of all subsidiary undertakings consists solely of ordinary shares. The Group holds 100% of the share capital of all subsidiaries, 50% of the ordinary share capital of Portmeirion Canada Inc. and 27.58% of the ordinary share capital of Furlong Mills Limited. Furlong Mills Limited supplies Portmeirion Potteries Limited with all of its clay raw materials.

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

Notes to the Company Financial Statements
Continued

d. Debtors

	2007 £'000	2006 £'000
Loans owed by subsidiary undertakings falling due after more than one year:		
Portmeirion Potteries Limited	**10,146**	10,146
Portmeirion Enterprises Limited	**705**	705
Portmeirion Distribution Limited	**60**	60
Corporation tax	**–**	27
	10,911	10,938

e. Creditors

	2007 £'000	2006 £'000
Amounts falling due within one year		
Amounts owed to subsidiary undertaking, Portmeirion Potteries Limited	**7,078**	5,891
Other taxation and social security	**32**	6
Other creditors	**44**	44
	7,154	5,941

f. Share capital, share premium account and reserves

The movements on share capital are disclosed in note 24 to the consolidated financial statements.

The movements on the share premium account and other reserves are shown below.

	Share premium account £'000	Other reserves £'000	Treasury shares £'000	Share based payment reserve £'000	Retained earnings £'000
As at 1 January 2007	4,657	197	(1,266)	38	2,303
Loss for the financial year	–	–	–	–	(63)
Dividends paid	–	–	–	–	(1,398)
Increase in share based payment reserve	–	–	–	53	–
Premium on shares issued under option scheme	163	–	–	–	–
As at 31 December 2007	**4,820**	**197**	**(1,266)**	**91**	**842**

g. Related party transactions

During 2007 transactions totalling £1,187,000 (2006 – £1,706,000) were credited to the intercompany account with the Company's subsidiary, Portmeirion Potteries Limited. These transactions were payments and receipts made on behalf of the Company by Portmeirion Potteries Limited, a tax adjustment and the transfer of the share based payment reserve.

The outstanding balances with subsidiary undertakings at 31 December 2007 and 31 December 2006 are shown in notes d and e above.

Company Information

Board of Directors

Richard J. Steele BCOM FCA CTA	Non-executive Chairman
Lawrence F. Bryan BA	Chief Executive
Michael Haynes MCIM	Group Sales & Marketing Director
Brett W.J. Phillips BSc ACA	Group Finance Director
Barbara Thomas Judge BA JD	Non-executive Director
Janis Kong BSc OBE	Non-executive Director

Secretary
Brett W.J. Phillips BSc ACA

Registered Office and Number
London Road
Stoke-on-Trent ST4 7QQ
Tel: 01782 744721
Fax: 01782 744061
www.portmeirion.com
Registered Number 124842

Auditors
Deloitte & Touche LLP
Four Brindleyplace
Birmingham B1 2HZ

Nominated Adviser and Stockbroker
KBC Peel Hunt Ltd
111 Old Broad Street
London EC2N 1PH

Solicitors

Pinsent Masons LLP
3 Colmore Circus
Birmingham B4 6BH

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

Registrars
Capita Registrars
Northern House
Woodsome Park, Fenay Bridge
Huddersfield HD8 0LA
Tel: 0871 664 0300* (UK)
+44 (0) 208 639 3399 (Outside UK)
Fax: +44 (0) 208 639 2220
Email: ssd@capitaregistrars.com
www.capitaregistrars.com
*Calls cost 10p per minute plus network extras

Financial PR Advisers
Pelham Public Relations Ltd
No.1 Cornhill
London EC3V 3ND
Tel: +44(0)20 7743 6670
Email: pr@pelhampr.com

Financial Calendar

Annual General Meeting	May

Interim Report	August

Dividends	
Interim announced	August
Paid	October
Final announced	March/April
Paid	May

UK factory shops

Longton
Stoke
Swindon
Trentham
Colne
Street
Bridgend

See www.portmeirion.com for details or call the UK Customer Service line on +44 (0)1782 743456

Patterns

Botanic Garden
Pomona
The Holly and The Ivy
Sophie Conran for Portmeirion
Botanic Roses
Up the Garden Path by Laura Stoddart
Botanic Blue
Crazy Daisy
Jacqueline Wilson's Totally Tracy
The Very Hungry Caterpillar
Rose Bouquet
A Fine Romance
Juicy Lucy
Love and Peace
Eden
A Christmas Story
Pimpernel Placemats, Coasters & Trays
Portmeirion Glass (Stella & Isabella)
Wish Candles
Compleat Angler (USA Only)
Birds of Britain (USA Only)
Blue Danube (USA Only)

Portmeirion Worldwide Sites & Stockists
Details of Portmeirion worldwide sites and stockists can be found on our website www.portmeirion.com

FSC Mixed Sources Product group from well-managed forests, controlled sources and recycled wood or fiber Cert no. SGS-COC-004202 www.fsc.org © 1996 Forest Stewardship Council

This document is printed on Revive 50:50 silk, a paper made using 50% recovered waste and 50% virgin fibre.

PORTMEIRION GROUP PLC
London Road, Stoke-on-Trent ST4 7QQ England.
Tel: +44 (0)1782 744721. Fax: +44 (0)1782 744061.
www.portmeirion.com