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portmeirion group plc

report & accounts 2005

contents

sophie conran

registered number 124842

FINANCIAL HIGHLIGHTS

	2005 £000's	As restated 2004 £000's
Turnover	27,552	27,686
Pre-tax profit/(loss) before operating exceptionals	1,699	(72)
Pre-tax profit/(loss) after operating exceptionals	1,380	(1,265)
Basic earnings/(loss) per share	10.57p	(7.84p)
Dividends per share	13.25p	13.25p

DIRECTORS AND ADVISERS

Board of Directors

Arthur W. Ralley	*Chairman*
Lawrence F. Bryan BA	*Chief Executive*
Brett W.J. Phillips BSc ACA	*Group Finance Director*
Richard J. Steele BCOM FCA CTA	*Senior Non-executive Director*
Barbara Thomas Judge BA JD	*Non-executive Director*
Janis Kong BSc OBE	*Non-executive Director*

Secretary and Registered Office

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

Auditors

Deloitte & Touche LLP
Birmingham

Bankers

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

Stockbrokers

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

Registrars

Capita Registrars
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Woodsome Park
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Solicitors

Pinsent Masons
3 Colmore Circus
Birmingham
B4 6BH

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

chairman's statement

Highlights

- Annual sales of £27.552 million, 2.7% above the previous year when measured at the same US dollar exchange rate, but level with last year following the sterling/dollar exchange rate movement.
- 2005 pre-tax profit before exceptionals of £1.699 million compared to a loss of £0.072 million (restated) in 2004.
- Exceptional items for the year amounted to £0.319 million compared with £1.193 million in the previous year. Therefore, the total profit for the year, before taxation, was £1.380 million compared with a loss of £1.265 million (restated) the previous year.
- Proposed final dividend maintained at 9.95p.
- 2005 earnings per share 10.57p, compared to a loss of 7.84p (restated) in 2004.

Dividend

The Board is recommending a final dividend of 9.95p bringing the total to 13.25p for the year, unchanged from 2004. The dividend will be paid, subject to shareholders' approval, on 26th May 2006, to shareholders on the register at the close of business on 28th April 2006. We are nearing our short-term goal of ensuring that the dividend is covered by earnings.

Results for the year

I am pleased to report that, following the major re-organisation of the Company's manufacturing plants, a creditable profit improvement of some £2.6 million was achieved. This was also after absorbing approximately £0.5 million in costs due to the further fall, at our hedged rates, in the value of the US dollar to sterling. Since sales in the US account for over a third of the total, the Company hedges exchange rate risk by selling dollars forward. In 2004 the hedged rate was $1.63, and in 2005 $1.78. The Group is largely hedged at $1.82 for 2006, so additional exchange losses should be minimal for the current year.

The 2005 full year cash contribution of £0.348 million to the Group's closed defined benefit pension scheme has been reviewed, following the scheme's actuarial valuation during 2005. As a result the contribution will remain at the same level for 2006.

Exceptional operating costs in 2005 consisted of £0.284 million following the consolidation of the two manufacturing sites in Stoke-on-Trent to one. The Board also decided to take an impairment charge against the Group's investment in Furlong Mills Limited, a company supplying raw material to the ceramic industry. This impairment is a non-cash write-down of £0.273 million. These exceptional costs were offset by an exceptional gain of £0.238 million following the sale of the vacated manufacturing site.

The 2.7% improvement in sales on a constant exchange rate basis was achieved with an exceptional export performance, which more than offset a disappointing UK market result.

Sales in the US in dollars increased by an impressive 11%, to $18.275 million, representing 37% of total sales in sterling. This was achieved with improved sales of our established classic tableware patterns, plus the addition of lower priced Portmeirion Studio ranges, sourced from overseas. The team at our US subsidiary is to be congratulated on a fine performance in improving market share.

Sales to South Korea increased by a remarkable 41% to £4.670 million, following a major expansion in the number of retail outlets stocking the Company's classic ranges. There is still opportunity for growth with new product ranges to be introduced this year. Apart from Japan, where we changed from selling through a wholly-owned subsidiary to a local distributor, all our other major export markets showed healthy sales increases leading to a total Group export sales increase of 18% on a constant exchange rate basis.

Sales in the UK were 19% below the previous year. Although the performance was affected to some extent by reduced consumer spending and fewer tourists, I believe this disappointing sales trend will be corrected with the introduction of much needed new product ranges. No fewer than five new ranges are being delivered to our retail customers in the second quarter of this year, which should lead to the essential improvement in sales.

The result of this sales performance and exceptional gains on property disposal has increased the Group's cash balance to £6.3 million at the end of the year. There will be a further cash gain following the sale of our secondary warehousing site when the new warehouse is completed. This will ensure that the Company maintains a strong balance sheet while still investing £3.0 million in capital expenditure for mechanising and equipping the new warehouse.

Product strategy

The markets in both the UK and US continue to be subjected to retail price deflation. Low cost retailers and the supermarket groups continue to expand their non-food offering, and our department store customers and independent retailers are responding by offering good quality products at ever lower prices. The Group's strategy of producing excellent design and quality in new product ranges under the Portmeirion brand, sourced overseas, is now beginning to show results, while the classic ranges continue to be produced at our Stoke-on-Trent factory.

Most notable of the five new products this Spring is a range of ceramic cookware designed by Sophie Conran. This has met with a tremendous response, both in the UK and abroad. I expect this product range to be sold in the US, Japan and Australia, and to open up new channels of distribution for Portmeirion.

Manufacturing and warehouse reorganisation

As a result of the consolidation of our manufacturing sites, I had anticipated a reduction in annual operating costs of approximately £0.5 million per annum. I am pleased to confirm that approximately half of these savings were achieved in the second half of 2005, and as a result the manufacturing gross margin improved by 3 percentage points compared to the previous year. Further cost reductions have been made at the start of 2006, since the Group is now faced with an increase of at least £0.25 million in energy costs this year. However, the overall level of annual cost reduction should be maintained.

As reported in December 2005, the contract has now been placed for the lease of the Group's new warehouse and distribution centre. Construction work has begun, and completion is planned for the end of 2006, with operations commencing in Spring 2007.

Management structure

The Group has continued to strengthen the sales and marketing team in 2005, without increasing the overall size of the management team. Resources have been transferred from production and support services, so that the cost base has not increased. This adjustment to the management structure is in anticipation of continued growth in the number of sourced product ranges, and the need to market our classic ranges to new export markets.

Current trading and prospects

I expect 2006 to be another challenging year, with consumer spending on a tight rein. Sales so far this year are below the previous year, but broadly in line with expectations. As I have reported, I expect the sales trend to improve as our new ranges come to market in the second quarter of this year.

Our consumers now require new casual dining products every season, and we will maintain the momentum of new product introductions. This, together with constant improvement in efficiency and productivity, will, I believe, result in continuing improvement in the Group's performance.

I would particularly like to thank the management team and workforce for their contribution to the successful repositioning of the Group in 2005, which will now continue through this year.

Arthur Ralley
Chairman 18th April 2006

Product range

2005 saw the largest increase in new products ever launched by the Portmeirion Group. New licensing agreements, new product categories and new tableware collections have added over 544 new SKU's to our assortment. Old lines that have slowed have been eliminated and the resulting refreshed product assortment is our strongest and most diverse ever.

Our design studio now has more resource and artists than ever. With the combination of outside design contracting and a significant volume of creative work done in house we are producing excellent potential products at the direction of our retail customers and in anticipation of the trends shown by our consumers. Our current ability to partner in product development with our retailers made significant contributions to the improvement in 2005 and will continue to do so for the future.

We now have sales in textiles, glass, candles, placemats, coasters, melamine and metal giftware as well as ceramics in both tableware and giftware categories. This diversity has enabled us to make a significant turnaround in our profitability for 2005 and has us poised for a positive first half in 2006, with increased volume beginning in the second quarter. The success of the Portmeirion Studio sub-brand has contributed sales of £2.2 million to the Group on a worldwide basis and will continue to grow. In particular the success of our seasonal product, headed by the "Christmas Story", pattern has added significant volume in Canada, the United States, the UK and the rest of Europe.

Sourcing

The continued expansion of our sourced goods assortment was essential for ensuring the turnaround seen in 2005. Our goal of having 50% of our volume generated by non-UK manufacturing is progressing with a 15% contribution in 2005. Since the vast majority of new ranges shown in late 2005 and early 2006, will be manufactured outside the UK, sourced sales in 2006 will show a further significant increase.

We have added more personnel to this department and will continue to add more resource as volumes increase and needs dictate. The increased number of factory relationships will require more travel to ensure quality and on-time delivery for our products. Senior management of the company are engaged in frequent visits to these important resources and physical inspections of all factories ensure that no products sold by the group are made with any production partner that violates ethical or humane production standards. Underage employees or dangerous work practices are not tolerated. Also our partners are required to meet environmental standards imposed by their local authorities. Just as our customer base is under review for diversification we maintain the same approach to our manufacturing partners. A broad selection of high quality factories spread geographically around the world ensures that natural disasters and/or localised economic factors do not jeopardise a majority of our supply at any one time. This strategy is part of our basic risk avoidance program.

The Group does not have any financial interest or ownership of any overseas factory at this point and maintains its full investment in production capacity inside the UK.

Profit and sales

As noted in the Chairman's statement, profit before tax for the year was £1.380 million, a significant turnaround from the £1.265 million (restated) total loss last year. This is, I believe, a very creditable reversal and merits praise for the employees of the Group.

I foresee a brighter outlook for sales in 2006 due to new product ranges shown at year end 2005 and early 2006. A broad assortment of these ranges will show on retail shelves in the next few months. We expect a positive reaction from our consumers following an extremely positive reaction from our retail buyers.

Consolidation

Our plans for improving the efficiency of our manufacturing facilities progressed well during 2005 and are ongoing. During the latter quarter of the year, the savings generated by closing our casting factory began to show through. Our efforts continue in this direction to combat energy cost increases of 28% for electricity and a budgeted 68% for gas. Our production team, reorganised in 2005, is fully focused on increasing the efficiencies of our in-house manufacturing processes. A re-examination of our interpretation of lean manufacturing has led to an enthusiastic approach to cost reduction. 2006 will see continued efforts to keep our factory competitive in the international arena. Any products that cannot be made efficiently in the UK will be outsourced if a suitable high quality substitute factory can be found. It is understood that international production is vital to the overall success of the Group in the years to come.

The new warehouse project is expected to be completed in late 2006 with a full switch over in early 2007. This will enable us to convert more property assets into cash and further reduce manufacturing expense.

The 50% increase in the capacity of the new single facility compared to our existing two warehousing buildings will allow us room for growth and show us a significant increase in product handling efficiencies.

Summary

2005 was indeed a turnaround year as it needed to be. Although considerable efforts are required to return the Group to the level of profitability experienced in the past, it is hoped that the new product introductions currently under way will show benefits on an ongoing basis. The constant attention to saving costs will do the same. We expect our concentrated team efforts on diversification, increasing market share in major markets and new product development to combine to produce continued growth in profits and sales for 2006 and beyond. The future of the Portmeirion Group as a design house, distributor and manufacturer of high quality desirable home based products is ensured by a dedicated management team and a skilled efficient workforce.

Lawrence Bryan
Chief Executive 18th April 2006

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report together with the audited financial statements of the Company and its subsidiary undertakings for the year ended 31st December 2005.

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

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

Results
The results for the year are set out on page 23. The movements on reserves are shown in Note 18 on page 37.

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 3rd October 2005 an interim dividend of 3.3p (2004 - 3.3p) per share was paid on the Ordinary share capital. The Directors recommend that a final dividend of 9.95p per share be paid (2004 - 9.95p), making a total for the year of 13.25p (2004 - 13.25p) per share. The final dividend will be paid, subject to shareholders' approval, on 26th May 2006, to shareholders on the register at the close of business on 28th April 2006.

Directors and their interests
The Directors who held office during the year are named below. The beneficial interests of the Directors and their families, registered by each Director, in the share capital of the Company, together with their interests as trustees and options to subscribe for shares, are also shown.

	As at 31st December 2005 or at date of resignation 5p Ordinary shares			As at 31st December 2004 5p Ordinary shares		
	Beneficial	**Non-beneficial**	**Options**	Beneficial	Non-beneficial	Options
L.F. Bryan	**150,000**	–	**200,000**	150,000	–	70,000
E.S. Cooper-Willis*	**1,227,150**	**378,000**	–	1,427,150	378,000	–
Lady Judge	**5,000**	–	–	5,000	–	–
J. Kong	**3,000**	–	–	3,000	–	–
B.W.J. Phillips	**10,455**	–	**180,000**	10,455	–	50,000
A.W. Ralley	**20,000**	–	**200,000**	20,000	–	70,000
R.J. Steele	**18,000**	–	–	18,000	–	–

*E.S. Cooper-Willis retired from the Board on 31st May 2005.

E.S. Cooper-Willis sold 200,000 Ordinary shares in the Company on 17th March 2005 at 162p per share.

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

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

Directors proposed for re-election

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

L.F. Bryan

Lawrence Bryan, aged 46, 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 re-joined the Group in 1998 as President of Portmeirion USA, became a Director on 1st January 2000 and was promoted to Chief Executive on 15th 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 and President of International China Company. He is a Fellow of the Royal Society of Arts. His contract expires on completion of one year's notice.

Lady Judge

Lady Judge, aged 59, 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.

Non-executive Directors

R.J. Steele - Senior Non-executive Director

Dick Steele is the Senior Non-executive Director. He is a Chartered Accountant, a Member of the Academy of Experts and a Member of the Institute of Taxation. He has spent ten years as Group Finance Director of listed companies, latterly with Storehouse and before that Lloyds Chemists. He is Non-executive Chairman of HobbyCraft, Buckley Jewellery, Snap Digital Imaging, Original Additions and Europeople. His contract expires on completion of one year's notice.

J. Kong

Janis Kong is a director of the Royal Bank of Scotland and of VisitBritain. 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 was a founder board member of the South East England Development Agency. She holds an honorary Doctorate with the Open University and has received an OBE.

Lady Judge

See above for biographical information.

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 2005, to complement these discussions, the Company has continued communicating information from Board level to all employees on a monthly basis via a programme of team briefings. Share option and profit related bonus schemes are operated to encourage the involvement of employees in the Group's performance. Portmeirion Potteries Limited, the employer of the Group's UK based employees is an Investor in People. The Directors are committed to the continuing development of the Group's employees via the principles of Investors in People.

Employment of disabled persons

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

Substantial shareholdings
In addition to the Directors' interests notified above, the Company had been notified of the following beneficial interests in 3% or more of its issued share capital as at 18th April 2006:

	Number of shares	Percentage
Fortress Finance Investment Inc	2,471,513	25.04%
Saffery Champness Trust Corporation	1,436,195	14.55%
Kamrouz Farhadi	1,195,250	12.11%
Rysaffe Trustee Company (C.I.) Limited	356,077	3.61%

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

Allotment of shares
By law, shareholders' approval is required for the allotment of shares. Approval may either be given for particular allotments or by a general authority. The Directors were given a general authority to allot shares at the Annual General Meeting on 16th May 2005 in respect of £172,020 of share capital. This authority expires on 15th May 2010. Approval is being sought in Resolution 6 at the Annual General Meeting in respect of a general authority to allot up to £164,513 (being less than a third of the present issued share capital excluding treasury shares), to expire on 22nd May 2011.

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 £164,513 of share capital whose allotment is authorised, the allotment of Ordinary shares pursuant to the terms of the employee share schemes and of up to £24,677 of share capital (being less than five per cent of the issued share capital of the Company excluding treasury shares) otherwise than on a rights issue. The Directors intend to propose that these authorities be renewed annually.

Authority for market purchase of own shares
Resolution 8 at the Annual General Meeting is a special resolution which will provide the authority for the Company to make market purchases of its own shares. There are a number of restrictions on the Company's ability to make market purchases, as detailed in the Notice of Annual General Meeting, and in particular the maximum number of Ordinary shares that may be purchased is 987,081 (being ten per cent of the issued share capital of the Company excluding treasury shares). The Directors intend to propose that this authority be renewed annually.

Financial instruments
The Group's net funds at 31st December 2005 were £6.3million (2004 - £4.9million). The Group's policy is to place funds on short-term deposit with highly rated institutions. The Group has no bank borrowings.

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

The most significant exposure to foreign currency arises from the US dollar sales made by the UK subsidiary to the US subsidiary. Forward contracts are in place to cover approximately 70% of the expected US dollar receipts for 2006. The Group enters into derivative transactions only to manage exposure arising from its underlying business. No speculative derivative contracts are entered into. Note 27 on page 42 provides further disclosure of the Group's financial instruments.

Creditor payment policy
Payment terms are agreed with each of the Group's major suppliers. The Group abides by these terms provided that the supplier also complies with the agreed terms and conditions. The policy for other suppliers is generally to make payment by the end of the month following receipt of a valid invoice. All payment terms are stated at the time orders are placed. The number of days purchases represented by trade creditors at 31st December 2005 was 33 (2004 - 36). The Company has no trade creditors.

Charitable and political contributions
Contributions to various charities in the form of goods during the year amounted to £14,766 (2004 - £11,113) at cost. There were no political contributions during the year.

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

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

Annual General Meeting
The Annual General Meeting will be held at the registered office of the Company at London Road, Stoke-on-Trent, on 23rd May 2006 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

18th April 2006

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. Whilst the Company is not required to comply with the Regulations, it has used the Regulations as best practice guidance and voluntarily presented disclosures that reflect the extent of the Company's application of the Regulations. A resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

Remuneration committee

The Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the revised Combined Code. The members of the committee are R.J. Steele, J. Kong and Lady Judge who are all independent Non-executive Directors. R.J. Steele is the Senior Non-executive Director and Chairman of the Remuneration Committee. There have been no changes in the composition or chairmanship of the Remuneration Committee during the year.

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

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

Remuneration policy

Executive remuneration packages are prudently designed to attract, motivate and retain directors of high calibre and to reward them for enhancing value to shareholders. The performance measurement of the Executive Directors and the determination of their annual remuneration package are undertaken by the Remuneration Committee. The remuneration of the Non-executive Directors is determined by the Executive Directors.

There are five main elements of the remuneration package for Executive Directors and senior management:

- Basic annual salary (including directors' fees) and benefits;
- Annual bonus payments;
- Share option incentives;
- Long-term incentives; and
- Pension arrangements.

The Company's policy is that a substantial proportion of the remuneration of the Executive Directors should be performance related.

Executive Directors are entitled to accept appointments outside the Group providing that the Chairman's permission is granted.

Basic salary and benefits in kind

Salary is normally reviewed annually, on 1st January, or when responsibilities change. In deciding the appropriate levels, the Committee takes into account factors which it considers necessary including industry standard executive remuneration and comparable pay levels within the Company. Each Executive Director is provided with health care benefits.

Annual performance related bonus
Each Executive Director's remuneration package includes a performance related bonus. If the 2006 profit before taxation (PBT) exceeds an annual target, then a bonus pool is calculated. The bonus pool is shared between the three Executive Directors in proportion to their basic salary. The bonus pool is calculated by taking a maximum of 15% of the amount by which the Group profit before taxation exceeds the target. The maximum bonus payable is 100% of basic salary.

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

Share options
The Company has three share option schemes: the Portmeirion 2002 Share Option Scheme, the 1997 Approved Company Share Option Plan and the 1997 Unapproved Share Option Scheme.

Options granted to the Executive Directors under the Portmeirion 2002 Share Option Scheme on 24th March 2005 can normally only be exercised if the basic earnings per share of the Group for the year ending 31st December 2007 is more than 15 per cent higher than the average of the basic earnings per share of the Group for each of the years ended 31st December 2001, 31st December 2002 and 31st December 2003. The reasons for selecting earnings per share as a measure of performance is that it directly reflects operational performance and also is a significant factor in determining the market's view of the Company's value.

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

Long-term incentive schemes
The Group operates a long term incentive scheme, the "Phantom Share Option Scheme 2001", for the benefit of certain Directors and employees. The scheme was introduced on 14th March 2001. The scheme entitles participants to earn an incentive payment based on the movement in Company share price between the average mid-market price over the three trading days prior to the date the incentive is granted and the average mid-market price over the three trading days after the day of the announcement of the results for the financial year two years after the financial year in which the incentives are granted, subject to a maximum increase in value per share of £4.00. The incentive payment is calculated by reference to nominal shareholdings.

The performance condition relating to the incentives granted after 31st December 2002 under the "Phantom Share Option Scheme" is that the growth in the basic earnings per share shown in the Group's audited accounts over the three years following the financial year immediately before the financial year in which the incentives were granted, is higher than 15 per cent. The reasons for selecting earnings per share as a measure of performance is that it directly reflects operational performance and also is a significant factor in determining the market's view of the Company's value.

No incentives under this scheme were granted to Directors during 2005.

Pensions
B.W.J. Phillips and A.W. Ralley, are members of the Portmeirion Potteries Group Stakeholder Pension Plan, a defined contribution scheme. Annual performance related bonuses are not subject to contributions by the Company to the money purchase pension arrangements maintained for the Directors.

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

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

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

Directors' contracts
It is the Company's policy that Executive Directors should have contracts with an indefinite term providing for a maximum of one year's notice.

L.F. Bryan 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.

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

	Date of Contract	**Notice Period**
A.W. Ralley	11.10.2000	12 months
L.F. Bryan	8.11.2002	12 months
B.W.J. Phillips	15.03.2000	12 months

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

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

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

	2005	2004
	£	£
Emoluments	467,430	662,547
Long-term incentive plan payments	–	61,280
Money purchase pension contributions	38,647	48,293
	506,077	772,120

DIRECTORS' REMUNERATION REPORT (continued)

Directors' emoluments

	Salary & fees £	Benefits £	Bonus £	Total £	Pension Contri-butions £	2005 Total £	2004 Total £
Executive							
A.W. Ralley	96,525	1,537	4,826	102,888	12,548	115,436	109,673
L.F. Bryan	144,423	1,729	7,221	153,373	12,797	166,170	170,320
B.W.J. Phillips	120,930	5,387	6,047	132,364	13,302	145,666	134,832
Non-executive							
E.S. Cooper-Willis (1)	22,155	–	–	22,155	–	22,155	53,025
Lady Judge (2)	18,025	–	–	18,025	–	18,025	18,025
J. Kong	18,025	–	–	18,025	–	18,025	18,025
R.J. Steele (3)	20,600	–	–	20,600	–	20,600	20,600
Total	440,683	8,653	18,094	467,430	38,647	506,077	524,500

Notes

(1) The 2005 figures for E.S. Cooper-Willis relate to the period up to his retirement on 31st May 2005.

(2) The remuneration for Lady Judge was made to BT Consulting Inc. Limited in respect of her services.

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

(4) The total Directors' remuneration figure for 2004 of £772,120 included long-term incentive plan payments of £61,280 and £186,340 paid in respect of A.M. Miles for the period up to his resignation on 31st July 2004. The figure for A.M. Miles included total compensation in the amount of £101,695.

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

Directors' pension entitlements

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

	Accrued pension at 01.01.05 £	Increase in accrued pension in the year £	Accrued pension at 31.12.05 £
B.W.J. Phillips	19,703	567	20,270

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

	Transfer value at 01.01.05 £	Contributions made by the Director £	Increase in transfer value in the period net of contributions £	Transfer value at 31.12.05 £
B.W.J. Phillips	217,285	–	31,056	248,341

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire Ordinary shares in the Company granted to or held by the Directors. No options were exercised during the year.

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

	Number of Options						Date from	
						Exercise	which	Expiry
Director	**At 01.01.05**	**Granted**	**Exercised**	**Lapsed**	**At 31.12.05**	**Price**	**Exercisable**	**Date**
The 1997 Unapproved Share Option Scheme								
L.F. Bryan	50,000	–	–	–	50,000	187.5p	09.04.2005	09.04.2006
B.W.J. Phillips	24,200	–	–	–	24,200	187.5p	09.04.2005	09.04.2006
A.W. Ralley	34,000	–	–	–	34,000	187.5p	09.04.2005	09.04.2006
The 1997 Approved Company Share Option Plan								
B.W.J. Phillips	5,800	–	–	–	5,800	187.5p	09.04.2005	09.04.2006
A.W. Ralley	16,000	–	–	–	16,000	187.5p	09.04.2005	09.04.2006
The 2002 Share Option Scheme								
L.F. Bryan	20,000	–	–	20,000	–	165.9p	18.03.2006	18.03.2007
L.F. Bryan	–	150,000	–	–	150,000	167.5p	24.03.2008	24.03.2009
B.W.J. Phillips	20,000	–	–	20,000	–	165.9p	18.03.2006	18.03.2007
B.W.J. Phillips	–	150,000	–	–	150,000	167.5p	24.03.2008	24.03.2009
A.W. Ralley	20,000	–	–	20,000	–	165.9p	18.03.2006	18.03.2007
A.W. Ralley	–	150,000	–	–	150,000	167.5p	24.03.2008	24.03.2009

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

(2) The share price reached a high of 200.0p and a low of 162.5p during 2005. The average share price during 2005 was 177.3p.

Approval

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

B.W.J. Phillips
Company Secretary
18th April 2006

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 July 2003. 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, comprising three Executive and three Non-executive Directors. E.S. Cooper-Willis, who served as a fourth Non-executive Director, retired from the Group Board on 31st May 2005. The Board considers that the remaining 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 as described below. Following the principles of the Code the Chief Executive, who was appointed such in 2001, intends to retire for re-election every third year.

A.W. Ralley, the Chairman, is responsible for the running of the Board and L.F. Bryan, the Chief Executive, has executive responsibility for running the Company's business and implementing Group strategy. The Board meets at least six times each year and has a formal schedule of matters reserved to it. It is responsible for overall Group strategy; approval of major capital expenditure projects; approval of the annual and interim results; annual budgets; dividend policy; and Board structure. It monitors the exposure to key business risks and reviews the strategic direction of all trading subsidiaries, their annual budgets, their performance in relation to those budgets and their capital expenditure.

All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. In addition, minutes of the meetings of the directors of the main UK subsidiary are circulated to the Group Board of Directors. All Directors have direct access to the advice and services of the Company Secretary and are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

The following table shows the attendance of the Directors at meetings of the Board and its principal committees.

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

Notes:

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

(2) E.S. Cooper-Willis retired from the Board on 31st May 2005.

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

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

Nomination Committee

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

Remuneration Committee

The Remuneration Committee is chaired by R.J. Steele and comprises all the Non-executive Directors. The Remuneration Committee is responsible for making recommendations to the Board in relation to all aspects of remuneration for Executive Directors. The Remuneration Committee believes that the presence of the Chairman and the Chief Executive is important in determining the remuneration of the other Executive Directors. The Chairman and Chief Executive do not participate in discussions relating to their personal remuneration. In framing its policy the Remuneration Committee takes into account any factors which it deems necessary, including industry standard executive remuneration, differentials between executive and employee remuneration, and differentials between executives. The remuneration of the Non-executive Directors is determined by the Executive Directors.

Audit Committee

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

Internal Control

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

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place throughout the financial year and has remained in place up to the approval date of the annual report and accounts. That process is regularly reviewed by the Board and accords with the internal control guidance for directors on the combined code produced by the Turnbull working party.

The Board intends to keep its risk control procedures under constant review particularly with regard to the need to embed internal control and risk management procedures further into the operations of 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.

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

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

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

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

INDEPENDENT REPORT OF THE AUDITORS

To the Members of Portmeirion Group PLC

We have audited the Group and individual Company financial statements (the "financial statements") of Portmeirion Group PLC for the year ended 31st December 2005 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the statement of accounting policies and the related notes 1 to 27. 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 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 United Kingdom 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 in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with 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 circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the individual Company's affairs as at 31st December 2005 and of the Group's profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham
18th April 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 31st December 2005

					As restated (Note 26)		
	Notes	**Before exceptional items 2005 £000's**	**Operating exceptional items 2005 £000's**	**Total 2005 £000's**	Before exceptional items 2004 £000's	Exceptional items 2004 £000's	Total 2004 £000's
Turnover - continuing operations	1	**27,552**	**-**	**27,552**	27,686	–	27,686
Raw materials and operating costs	2	**(26,045)**	**(284)**	**(26,329)**	(28,070)	(1,193)	(29,263)
Operating profit/(loss) - continuing operations	4	**1,507**	**(284)**	**1,223**	(384)	(1,193)	(1,577)
Profit on sale of tangible fixed assets	11	**-**	**238**	**238**	–	–	–
Share of profit of associated undertakings		**68**	**-**	**68**	145	–	145
Interest receivable and similar income	5	**207**	**-**	**207**	211	–	211
Interest payable and similar charges	6	**(2)**	**-**	**(2)**	(22)	–	(22)
Other finance costs	25	**(81)**	**-**	**(81)**	(22)	–	(22)
Impairment of investment in associated undertaking	12	**-**	**(273)**	**(273)**	–	–	–
Profit/(loss) on ordinary activities before taxation		**1,699**	**(319)**	**1,380**	(72)	(1,193)	(1,265)
Taxation on profit/(loss) on ordinary activities	7			**(317)**			454
Profit/(loss) on ordinary activities after taxation being the profit/(loss) for the financial year	8			**1,063**			(811)
Earnings/(loss) per share	10			**10.57p**			(7.84p)
Diluted earnings/(loss) per share	10			**10.54p**			(7.84p)
Dividends per share paid and proposed	9			**13.25p**			13.25p

Movements on reserves during the year are shown in Note 18 on page 37.

CONSOLIDATED BALANCE SHEET
As at 31st December 2005

	Notes	2005		As restated (Note 26) 2004	
		£000's	£000's	£000's	£000's
Fixed assets					
Tangible assets	11		**5,335**		6,279
Investments	12		**1,413**		1,544
			6,748		7,823
Current assets					
Stocks	13	**5,913**		6,054	
Debtors	14	**5,243**		5,926	
Cash at bank and in hand		**6,294**		4,859	
		17,450		16,839	
Creditors: amounts falling due within one year	15	**(3,081)**		(2,653)	
Net current assets			**14,369**		14,186
Total assets less current liabilities			**21,117**		22,009
Provisions for liabilities and charges	16		**(43)**		(19)
Net assets excluding pension deficit			**21,074**		21,990
Pension deficit net of related deferred tax	25		**(2,870)**		(2,358)
Net assets including pension deficit			**18,204**		19,632
Capital and reserves					
Called up share capital	17		**521**		521
Share premium account	18		**4,580**		4,580
Treasury shares	18		**(964)**		(202)
Profit and loss account	18		**14,067**		14,733
Equity shareholders' funds			**18,204**		19,632

These financial statements were approved by the Board of Directors and signed on 18th April 2006 on its behalf by:

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

COMPANY BALANCE SHEET
As at 31st December 2005

	Notes	2005 £000's	2005 £000's	As restated (Note 26) 2004 £000's	2004 £000's
Fixed assets					
Investment in subsidiary undertakings	12		**1,455**		1,455
Current assets					
Debtors – loans owed by subsidiary undertakings falling due after more than one year		**10,911**		10,911	
Creditors: amounts falling due within one year	15	**(4,291)**		(1,875)	
Net current assets			**6,620**		9,036
Net assets			**8,075**		10,491
Capital and reserves					
Called up share capital	17		**521**		521
Share premium account	18		**4,580**		4,580
Other reserves	18		**197**		197
Treasury shares	18		**(964)**		(202)
Profit and loss account	18		**3,741**		5,395
Equity shareholders' funds			**8,075**		10,491

These financial statements were approved by the Board of Directors and signed on 18th April 2006 on its behalf by:

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

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31st December 2005

	Notes	**2005 £000's**	2004 £000's
Cash inflow from operating activities	19	**3,033**	48
Returns on investments and servicing of finance	20	**148**	171
Taxation received/(paid)		**54**	(604)
Capital expenditure and financial investment	20	**292**	(414)
Equity dividends paid		**(1,330)**	(1,368)
Cash inflow/(outflow) before use of liquid resources and financing		**2,197**	(2,167)
Management of liquid resources		**(1,654)**	2,560
Financing	20	**(762)**	(202)
(Decrease)/increase in cash in the year		**(219)**	191

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

	2005 £000's	2004 £000's
(Decrease)/increase in cash in the year	**(219)**	191
Cash outflow/(inflow) from increase/(decrease) in liquid resources	**1,654**	(2,560)
Net funds at 1st January	**4,859**	7,228
Net funds at 31st December	**6,294**	4,859

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year ended 31st December 2005

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2005 £000's	As restated (Note 26) 2004 £000's
Profit/(loss) for the financial year	**1,063**	(811)
Currency translation differences	**380**	(291)
Actuarial loss on defined benefit pension scheme	**(998)**	(1,572)
Related deferred tax	**299**	472
Total recognised gains and losses for the financial year	**744**	(2,202)
Prior year adjustment	**(1,331)**	–
Total recognised gains and losses since the last annual report	**(587)**	(2,202)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005 £000's	As restated (Note 26) 2004 £000's
Profit/(loss) for the financial year	**1,063**	(811)
Movement in pension scheme liability	**(779)**	(1,198)
Dividends paid	**(1,330)**	(1,379)
Currency translation differences	**380**	(291)
Purchase of treasury shares	**(762)**	(202)
Net reduction in shareholders' funds	**(1,428)**	(3,881)
Opening shareholders' funds as previously stated	**20,963**	23,964
Prior year adjustment	**(1,331)**	(451)
Opening shareholders' funds as restated	**19,632**	23,513
Closing shareholders' funds	**18,204**	19,632

ACCOUNTING POLICIES

(a) Accounting basis

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

The more important accounting policies, which have been applied consistently, with the exception of the changes in accounting policy caused by the adoption of new Accounting Standards (see Note 26), are set out below.

(b) Consolidation

The Group accounts include the accounts of the Company and of its subsidiary undertakings. The Group's share of the results and retained earnings of associated undertakings is included. All accounts for subsidiaries and associated companies have been prepared for the year ended 31st December 2005 except for the accounts of Portmeirion Finance Limited which, for cash flow reasons associated with the date of payment of tax, have been prepared for the year ended 7th January 2006 and the accounts of Portmeirion Canada Inc. which have a year end of 30th June 2005. The Group accounts include interim financial information to 31st December 2005 for Portmeirion Finance Limited and the results of Portmeirion Canada Inc. for the year to 31st December 2005.

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

(c) Depreciation

(i) Tangible fixed assets

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

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

(ii) Leased assets

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

(d) Investments

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

(e) Stock

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

(f) Turnover

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

(g) Research and development

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

(h) Purchase of own shares

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

(i) Deferred taxation

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

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

(j) Translation of foreign currencies

(i) Trading

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

(ii) Overseas subsidiary undertakings

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

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

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

(iii) Overseas associated undertakings

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

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

(k) Group pension schemes

From 6th April 1999 the Group has operated a defined contribution pension scheme in the UK. For this scheme the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

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

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

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

1. Segmental analysis

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

Turnover by destination	**2005 £000's**	2004 £000's
United Kingdom	**9,562**	11,848
North America	**10,864**	10,256
European Union	**1,542**	1,338
Far East	**5,186**	3,913
Rest of the World	**398**	331
	27,552	27,686

Turnover by origin	**2005 Total sales £000's**	**2005 Inter-segment sales £000's**	**2005 Sales to third parties £000's**	2004 Total sales £000's	2004 Inter-segment sales £000's	2004 Sales to third parties £000's
United Kingdom	**22,143**	**(5,123)**	**17,020**	22,863	(5,467)	17,396
North America	**10,193**	**-**	**10,193**	9,841	–	9,841
Far East	**367**	**(28)**	**339**	449	–	449
	32,703	**(5,151)**	**27,552**	33,153	(5,467)	27,686

Operating profit/(loss) by origin	**Before exceptional items 2005 £000's**	**Operating exceptional items 2005 £000's**	**Total 2005 £000's**	As restated Before exceptional items 2004 £000's	As restated Operating exceptional items 2004 £000's	As restated Total 2004 £000's
United Kingdom	**1,342**	**(284)**	**1,058**	(336)	(957)	(1,293)
North America	**400**	**-**	**400**	208	–	208
Far East	**(235)**	**-**	**(235)**	(256)	(236)	(492)
Operating profit/(loss)	**1,507**	**(284)**	**1,223**	(384)	(1,193)	(1,577)

Net assets by origin	**2005 £000's**	As restated 2004 £000's
United Kingdom	**13,279**	14,611
North America	**3,512**	3,394
Far East	**-**	83
Operating net assets	**16,791**	18,088
Unallocated net assets	**1,413**	1,544
Total net assets	**18,204**	19,632

Unallocated net assets consist of investments in associated undertakings of £1,413,000 (2004 - £1,544,000).

Details of investments in associated undertakings are provided in Note 12 on page 34.

2. Raw materials and operating costs

	Before exceptional items 2005 £000's	Operating exceptional items 2005 £000's	Total 2005 £000's	Before exceptional items 2004 £000's	As restated Operating exceptional items 2004 £000's	Total 2004 £000's
Change in stocks of finished goods and work in progress	**142**	**–**	**142**	433	216	649
Raw materials and consumables	**6,813**	**–**	**6,813**	6,624	–	6,624
Other external charges	**6,943**	**120**	**7,063**	8,124	–	8,124
Staff costs (see Note 3)	**11,195**	**164**	**11,359**	11,902	–	11,902
Depreciation and other amounts written off tangible fixed assets	**952**	**–**	**952**	987	977	1,964
	26,045	**284**	**26,329**	28,070	1,193	29,263

Operating exceptional Items
The consolidation of manufacturing onto one site referred to in the 2004 annual report was completed during the six months ended 30th June 2005. The exceptional operating costs incurred as a result of this move and redundancies were £284,000.

3. Staff numbers and costs

	2005 Number	2004 Number
The average number of persons employed during the year, including Directors:		
Operatives	**350**	377
Staff	**221**	248
	571	625

	£000's	As restated £000's
Staff costs:		
Wages and salaries	**9,770**	10,227
Social security costs	**819**	857
Defined contribution and money purchase pension schemes costs	**770**	818
	11,359	11,902

Details of individual Directors' remuneration, pension contributions and pension entitlements required by the Companies Act 1985 are shown in the Directors' Remuneration Report on pages 14 to 18. Details of Directors' current share options are shown in the Directors' Remuneration Report on page 18.

4. Operating profit/(loss)

		2005 £000's	2004 £000's
Operating profit/(loss) is stated after charging:			
Research and development		**163**	198
Auditors' remuneration	– audit	**54**	45
	– other services	**11**	16
Operating lease rentals	– land and buildings	**421**	479
	– other	**37**	35

The audit fee for the Company was £2,000 (2004 - £2,000)

5. Interest receivable and similar income	2005 £000's	2004 £000's
Bank deposits	182	175
Other interest receivable	25	36
	207	211

6. Interest payable and similar charges	2005 £000's	2004 £000's
Interest paid	2	22

7. Taxation on profit/(loss) on ordinary activities	2005 £000's	2004 £000's
United Kingdom corporation tax at 30% (2004 - 30%)	421	42
Adjustment to corporation tax in respect of prior years	(250)	(264)
Overseas taxation	171	33
Adjustment to overseas taxation in respect of prior years	–	8
Associated undertakings	23	64
Double tax relief	(72)	(49)
Current taxation	293	(166)
Deferred taxation:		
Deferred taxation origination and reversal of timing differences	20	(332)
Adjustment to deferred taxation in respect of prior years	4	44
	317	(454)

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% (2004 - 30%). The actual tax charge/(credit) for the current and the previous year differs from the standard rate for the reasons set out in the following reconciliation:

	2005 £000's	As restated 2004 £000's
Profit/(loss) on ordinary activities before taxation	1,380	(1,265)
Tax on profit/(loss) on ordinary activities at standard rate of 30%	414	(380)
Factors affecting charge for the period:		
Accelerated capital allowances	74	314
Other timing differences	(194)	(90)
Expenses not deductible for tax purposes	116	85
Tax losses carried back	–	120
Tax losses carried forward	–	4
Unrelieved losses in foreign subsidiaries	159	60
Foreign tax charged at higher rates than UK standard rate	46	26
Adjustments to tax charge in respect of prior periods	(250)	(256)
Double tax relief	(72)	(49)
Total actual amount of tax on profit/(loss) on ordinary activities	293	(166)

8. Profit for the financial year

No profit and loss account is presented for the Company as permitted by section 230 of the Companies Act 1985. The consolidated profit of £1,063,000 (2004 - loss of £811,000 as restated) includes a loss of £324,000 (2004 - profit of £2,933,000) which is dealt with in the financial statements of the Company.

9. Dividends paid

	2005 £000's	2004 £000's
Final dividend of 9.95p per share paid in respect of the year ended 31st December 2004 (2004 – final dividend of 9.95p per share paid in respect of the year ended 31st December 2003)	**999**	1,035
Interim dividend of 3.3p per share paid in respect of the year ended 31st December 2005 (2004 – interim dividend of 3.3p per share paid in respect of the year ended 31st December 2004)	**331**	344
Total dividends paid in the year	**1,330**	1,379

The Directors recommend that a final dividend of 9.95p (2004 – 9.95p) per share be paid, making a total for the year of 13.25p (2004 – 13.25p) per share. The final dividend will be paid, subject to shareholders' approval, on 26th May 2006, to shareholders on the register at the close of business on 28th April 2006.

10. Earnings per share

Basic

The basic earnings/(loss) per share are calculated by dividing the profit after taxation of £1,063,000 (2004 - loss of £811,000 as restated) by the weighted average number of Ordinary shares in issue during the year of 10,057,467 (2004 - 10,350,192).

Diluted

The diluted earnings/(loss) per share are calculated in accordance with Financial Reporting Standard 22 (FRS 22). This calculation uses a weighted average number of Ordinary shares in issue adjusted to assume conversion of all dilutive potential Ordinary shares and is shown below:

	Earnings £	2005 Weighted Number of Shares	Earnings per Share (Pence)	Loss £	As restated 2004 Weighted Number of Shares	Loss per Share (Pence)
Basic earnings/(loss) per share	**1,063,000**	**10,057,467**	**10.57**	(811,000)	10,350,192	(7.84)
Effect of dilutive securities: employee share options	**–**	**23,636**	**–**	–	–	–
Diluted earnings/(loss) per share	**1,063,000**	**10,081,103**	**10.54**	(811,000)	10,350,192	(7.84)

FRS 22 requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems inappropriate to assume that option holders would act irrationally and there are no other diluting future share issues, diluted loss per share in 2004 equals basic loss per share.

11. Tangible fixed assets - Group

	Land and buildings			
	Freehold £000's	Short leasehold £000's	Plant and vehicles £000's	Total £000's
Cost				
At 1st January 2005	6,151	584	14,940	21,675
Additions	–	19	439	458
Disposals	(1,051)	(107)	(3,937)	(5,095)
Exchange adjustments	88	14	40	142
At 31st December 2005	**5,188**	**510**	**11,482**	**17,180**
Depreciation				
At 1st January 2005	1,951	541	12,904	15,396
Charge for year	117	24	811	952
On disposals	(599)	(110)	(3,853)	(4,562)
Exchange adjustments	20	10	29	59
At 31st December 2005	**1,489**	**465**	**9,891**	**11,845**
Net book value				
At 31st December 2005	**3,699**	**45**	**1,591**	**5,335**
At 31st December 2004	4,200	43	2,036	6,279

Following the consolidation of manufacturing the vacated freehold premises were sold. The resulting exceptional gain is analysed as follows:

	£000's
Net proceeds (£700,000 less selling expenses of £12,000)	**688**
Less: Impaired value of site	**(450)**
Exceptional gain	**238**

12. Investments

	2005 £000's	2004 £000's
Group		
Associated undertakings:		
Furlong Mills Limited		
2,080 Ordinary shares of £1 each representing 27.58% of the issued share capital		
Share of net assets	**1,152**	1,127
Discount on acquisition	**(13)**	(13)
Impairment of investment in Furlong Mills Limited	**(507)**	(234)
	632	880
Portmeirion Canada Inc.		
100 common shares representing 50% of the issued share capital		
Share of net assets	**781**	664
	1,413	1,544

The decrease of £131,000 in the amount disclosed under investments represents the Group's share of profits in associated undertakings less a further £273,000 impairment in the investment in Furlong Mills Limited. Furlong Mills is a supplier of raw materials to the ceramic manufacturing industry and, in the light of continuing changes to that industry in the UK, an impairment review has been carried out which has resulted in an additional impairment.

Company		
Subsidiary undertakings:		
30,000 Ordinary shares of £1 each in Portmeirion Potteries Limited representing 100% of the issued share capital at cost	**47**	47
100 Ordinary shares of no par value in Naugatuck Triangle Corporation representing 100% of the issued share capital at cost	**1,408**	1,408
	1,455	1,455

12. Investments (continued)

At 31st December 2005 the Company had the following subsidiary and associated undertakings:

Subsidiary undertakings	*Country of operation*	*Nature of business*
Portmeirion Potteries Limited	Great Britain	Pottery manufacturer
Portmeirion Finance Limited	Great Britain	Dormant
Portmeirion Enterprises Limited *	Great Britain	Intermediate holding company
Portmeirion Distribution Limited *	Great Britain	Dormant
Portmeirion Services Limited *	Great Britain	Dormant
Portmeirion Japan K.K. * (Japan)[1]	Japan	Marketing and distribution of pottery and accessories
Naugatuck Triangle Corporation (USA)	USA	Intermediate holding company
S. P. Skinner Co., Inc. (USA) **	USA	Marketing and distribution of pottery and accessories
Associated undertakings		
Portmeirion Canada Inc. (Canada)	Canada	Marketing and distribution of pottery and accessories
Furlong Mills Limited	Great Britain	Suppliers and millers of clay

The companies are incorporated in Great Britain and registered in England and Wales except where stated. The share capital of all subsidiary undertakings consists solely of Ordinary shares. The Group holds 100% of the share capital of all subsidiaries, 50% of the share capital of Portmeirion Canada Inc. and 27.58% of the share capital of Furlong Mills Limited

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

[1] Portmeirion Japan K.K. is being wound up

13. Stocks

	Group 2005 £000's	Group 2004 £000's
Raw materials and other consumables	**1,020**	1,019
Work in progress	**1,607**	1,212
Finished goods	**3,286**	3,823
	5,913	6,054

14. Debtors

	Group 2005 £000's	Group 2004 £000's
Trade debtors	**4,122**	4,598
Amounts owed by associated undertakings	**170**	95
Corporation tax	**321**	605
Other debtors	**183**	64
Prepayments and accrued income	**447**	564
	5,243	5,926

15. Creditors: amounts falling due within one year

	Group 2005 £000's	Group As restated 2004 £000's	Company 2005 £000's	Company As restated 2004 £000's
Trade creditors	**2,379**	1,951	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**4,197**	1,822
Amounts owed to associated undertakings	**13**	18	**–**	–
Corporation tax	**–**	–	**42**	–
Other taxation and social security	**510**	579	**6**	6
Other creditors	**179**	105	**46**	47
	3,081	2,653	**4,291**	1,875

16. Provisions for liabilities and charges

	£000's
Deferred taxation:	
Balance at 1st January 2005	19
Charge for year ended 31st December 2005	24
Balance at 31st December 2005	**43**

	2005		2004	
	Provided in the accounts £000's	**Full potential £000's**	Provided in the accounts £000's	Full potential £000's
Deferred taxation:				
Accelerated capital allowances	**173**	**173**	216	216
Short term timing differences	**(130)**	**(130)**	(197)	(197)
Deferred tax liability	**43**	**43**	19	19

No provision is required for deferred taxation in the accounts of the Company (2004 - £nil).
The above figures exclude taxation payable in the event of profits of overseas subsidiary undertakings being distributed.

17. Share capital

	2005		2004	
	Number 000's	**£000's**	Number 000's	£000's
Authorised share capital:				
Ordinary shares of 5p each	**15,000**	**750**	15,000	750
Allotted, called up and fully paid share capital:				
Ordinary shares of 5p each	**10,421**	**521**	10,421	521

The market price of the Company's shares at 31st December 2005 was 191.0p per share. During the year the price ranged between 162.5p and 200.0p per share.

Options granted to Directors and employees to acquire Ordinary shares of 5p in the Company and still outstanding at 31st December 2005 were as follows:

	Number of shares	Exercise price per share	Dates on which exercisable Earliest	Latest
The 1997 Approved Company Share Option Plan	32,300	187.5p	09.04.2005	09.04.2006
The 1997 Unapproved Share Option Scheme	108,200	187.5p	09.04.2005	09.04.2006
The 1997 Approved Company Share Option Plan	19,500	195.0p	24.04.2005	24.04.2006
The Portmeirion 2002 Share Option Scheme	450,000	167.5p	24.03.2008	24.03.2009

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

18. Share premium account and reserves

	Share premium account £000's	Treasury shares £000's	Profit and loss account £000's
Group			
As at 1st January 2005 as previously reported	4,580	(202)	16,064
Prior year adjustment (Note 26)	–	–	(1,331)
As at 1st January 2005 as restated	4,580	(202)	14,733
Profit for the financial year	–	–	1,063
Dividends paid	–	–	(1,330)
Exchange adjustment	–	–	380
Movement in pension scheme liability net of related deferred tax	–	–	(779)
Purchase of own shares	–	(762)	–
As at 31st December 2005	**4,580**	**(964)**	**14,067**

Profit and loss account as at 31st December 2005 excluding pension liability	16,937
Pension deficit net of related deferred tax	(2,870)
Profit and loss account as at 31st December 2005 including pension liability	**14,067**

The cumulative amount of goodwill written off at 31st December 2005 was £515,000 (2004 - £515,000).
The balance carried forward on the profit and loss account of £14,067,000 (2004 - £14,733,000 as restated) includes the Group's share of associated undertakings' post acquisition reserves of £1,845,000 (2004 - £1,703,000).

	Share premium account £000's	Other reserves £000's	Treasury shares £000's	Profit and loss account £000's
Company				
As at 1st January 2005 as previously reported	4,580	197	(202)	4,368
Prior year adjustment (Note 26)	–	–	–	1,027
As at 1st January 2005 as restated	4,580	197	(202)	5,395
Profit for the financial year	–	–	–	(324)
Dividends paid	–	–	–	(1,330)
Purchase of own shares	–	–	(762)	–
As at 31st December 2005	**4,580**	**197**	**(964)**	**3,741**

The Company made various purchases of its own shares throughout the year.
Overall 440,418 Ordinary shares of 5p each were acquired at a total cost of £762,000.

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

	2005 £000's	As restated 2004 £000's
Operating profit/(loss)	**1,223**	(1,577)
Depreciation	**952**	987
Contributions to defined benefit pension scheme	**(348)**	(348)
Impairment of tangible fixed assets - operating exceptional	**–**	977
Exchange gain/(loss)	**200**	(248)
Loss/(profit) on sale of tangible fixed assets	**21**	(3)
Decrease in stocks	**141**	721
Decrease/(increase) in debtors	**456**	(441)
Increase/(decrease) in creditors	**388**	(20)
Net cash inflow from operating activities	**3,033**	48

All of the above relate to continuing operations.

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

	2005		2004	
	£000's	**£000's**	£000's	£000's
Returns on investments and servicing of finance				
Interest received	**150**		193	
Interest paid	**(2)**		(22)	
Net cash inflow from returns on investments and servicing of finance		**148**		171
Capital expenditure and financial investment				
Purchase of tangible fixed assets	**(458)**		(437)	
Sale of tangible fixed assets	**750**		23	
Net cash inflow/(outflow) for capital expenditure and financial investments		**292**		(414)
Financing				
Purchase of treasury shares	**(762)**		(202)	
Net cash outflow from financing		**(762)**		(202)

21. Analysis of net funds

	At 1st January 2005 £000's	Cash flow £000's	**At 31st December 2005 £000's**
Cash in hand, at bank	1,355	(219)	**1,136**
Short term money market deposits	3,504	1,654	**5,158**
Total	4,859	1,435	**6,294**

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

22. Commitments

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

	2005		2004	
	Land and buildings £000's	**Other £000's**	Land and buildings £000's	Other £000's
On leases expiring:				
Within one year	**51**	**–**	87	35
In two to five years	**233**	**–**	203	–
After five years	**110**	**–**	189	–

Portmeirion Potteries Limited (PPL) has signed an agreement to lease a new warehouse over 15 years at an initial rent of £305,000 per annum. Rental payments will commence 3 months after the earlier of practical completion and access by PPL which has been assumed to be 30th September 2006. Accordingly no rental obligation has been included in the above figures.

There were no capital commitments at 31st December 2005 (2004 – £nil).

23. Contingent liabilities

The Company has given an unlimited guarantee to HSBC Bank plc in respect of the bank borrowings of Portmeirion Potteries Limited and Portmeirion Finance Limited. At 31st December 2005 the gross borrowings of Portmeirion Potteries Limited and Portmeirion Finance Limited amounted to £nil (2004 - £nil).

24. Related party transactions

The transactions during the year with associated undertakings were:

	Purchases 2005 £000's	Purchases 2004 £000's	**Sales 2005 £000's**	Sales 2004 £000's
Portmeirion Canada Inc.	**–**	–	**610**	335
Furlong Mills Ltd.	**517**	559	**–**	–

The outstanding balances at 31st December 2005, with associated undertakings were:

	Debtor 2005 £000's	Debtor 2004 £000's	**Creditor 2005 £000's**	Creditor 2004 £000's
Portmeirion Canada Inc.	**170**	95	**–**	–
Furlong Mills Ltd.	**–**	–	**13**	18

Several of the Directors made purchases of goods from the Group during the year on the same terms as those available to all employees. Total purchases did not exceed £250 for any Director in the year except B.W.J. Phillips who made purchases of £253 from the Group (2004 – £nil).

The Group made purchases totalling £21,000 from Buckley Jewellery Limited during the year on commercial terms (2004 – £116,000). R.J. Steele, Senior Non-executive Director, is non-executive chairman of Buckley Jewellery Limited and owns 1% of the company.

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

25. Pensions

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

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

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

* Price inflation of 2.75% per annum
* Pre-retirement valuation rate of interest of 6.75% per annum
* Post-retirement valuation rate of interest of 4.75% per annum
* Increases to pensions in payment of 5% per annum on benefits in excess of the guaranteed minimum pension (GMP) earned prior to 6th April 1997, 2.75% per annum on pensions earned after 6th April 1997.

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

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

The actuarial valuation of the scheme was updated as at 31st December 2005, 31st December 2004 and 31st December 2003 by qualified actuaries.

The major assumptions used by the actuaries were:

	2005	2004	2003
Rate of increase in salaries	**not applicable**	not applicable	not applicable
Rate of increase in pensions in payment:			
Post 06.04.88 GMP	**3.00%**	3.00%	3.00%
Pre 06.04.97 excess over GMP	**5.00%**	5.00%	5.00%
Post 06.04.97 pension	**2.75%**	2.75%	2.50%
Rate of revaluation of pensions in deferment	**2.75%**	2.75%	2.50%
Rate used to discount scheme liabilities	**4.75%**	5.50%	5.75%
Inflation assumption	**2.75%**	2.75%	2.50%

25. Pensions (continued)

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

	2005 Expected rate of return	2005 Fair value £000's	2004 Expected rate of return	2004 Fair value £000's	2003 Expected rate of return	2003 Fair value £000's
Equities	6.00%	11,230	6.75%	9,583	7.00%	8,488
Bonds	4.50%	5,917	5.25%	5,016	5.50%	4,568
Insured annuities	4.75%	334	5.50%	274	5.75%	256
Cash	4.25%	55		–		–
Total fair value of assets		**17,536**		14,873		13,312
Present value of scheme liabilities		(21,636)		(18,242)		(15,435)
Deficit in the scheme		**(4,100)**		(3,369)		(2,123)
Recoverable deficit in the scheme		(4,100)		(3,369)		(2,123)
Related deferred tax		1,230		1,011		637
Net pension liability		**(2,870)**		(2,358)		(1,486)

Analysis of the amount charged to operating profit:

	2005 £000's	2004 £000's
Current service cost	–	–
Past service cost	–	–
	–	–

Analysis of the amount charged to other finance costs:

	2005 £000's	2004 £000's
Expected return on pension scheme assets	922	865
Interest on pension scheme liabilities	(1,003)	(887)
Amount charged to other finance costs	**(81)**	(22)

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

	2005 £000's	2004 £000's
Actuarial return less expected return on pension scheme assets	1,828	675
Experience gains and losses arising on the scheme liabilities	311	47
Changes in assumptions underlying the present value of the scheme liabilities	(3,137)	(2,294)
Actuarial loss recognised in the statement of total recognised gains and losses	**(998)**	(1,572)

Movement in scheme deficit during the year:

	2005 £000's	2004 £000's
Deficit as at 1st January	(3,369)	(2,123)
Movement in year: Employer contributions	348	348
Other finance costs	(81)	(22)
Actuarial loss	(998)	(1,572)
Shortfall as at 31st December	**(4,100)**	(3,369)

25. Pensions (continued)

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

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

Following the decision to close the scheme with effect from 5th April 1999 formal notice was given to employees in January 1999. A defined contribution pension scheme commenced on 6th April 1999 for all eligible UK employees. This scheme was closed on 31st October 2002 and was replaced by a group stakeholder pension plan.

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

In the United States there was a provision for payments into the money purchase scheme of £82,000 at 31st December 2005 (2004 - £81,000).

26. Prior year adjustments

In addition to applying FRS 17 "Retirement Benefits" in full the Group has also applied FRS 21 "Events after the balance sheet date". Under this financial reporting standard dividends which have been declared after the balance sheet date are not recognised as a liability. Accordingly an adjustment has been made for the provision of £1,027,000 for dividends in the accounts for the year ended 31st December 2004.

The total of the prior year adjustments arising from the application of FRS 17 and FRS 21 is analysed as follows:

The closing shareholders' funds as at 31st December 2004 were restated as follows:	**£000's**	**£000's**
Shareholders' funds at 31st December 2004 as previously stated		20,963
Pension scheme liability as at 31st December 2004, net of related deferred tax	(2,358)	
Liability for 2004 final dividend not declared at 31st December 2004	1,027	
Total prior year adjustment		(1,331)
Shareholders' funds at 31st December 2004 as restated		**19,632**

The opening shareholders' funds as at 1st January 2004 were restated as follows:	**£000's**	**£000's**
Shareholders' funds at 1st January as previously stated		23,964
Pension scheme liability as at 31st December 2003, net of related deferred tax	(1,486)	
Liability for 2003 final dividend not declared at 31st December 2003	1,035	
Total prior year adjustment		(451)
Shareholders' funds at 1st January 2004 as restated		**23,513**

Following the application of FRS 17 in full, the 2004 operating loss has been restated to £1,577,000 (previously stated loss of £1,925,000) and the 2004 loss on ordinary activities before tax has been restated to £1,265,000 (previously stated loss of £1,591,000). An other finance charge of £81,000 has been recognised in the 2005 profit and loss account (2004 - £22,000). The 2004 loss per share has been restated to 7.84p (previously stated loss per share of 10.99p).

FRS 22 "Earnings per share" has also been applied but has no impact.

27. Financial instruments

Financial assets and liabilities

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

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

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

	2005 £000's	**2005 £000's**	2004 £000's	2004 £000's
Short term money market deposits:				
Sterling	**4,600**		3,000	
US Dollar	**558**		504	
		5,158		3,504
Cash at bank and in hand:				
Sterling	**426**		506	
US Dollar	**534**		552	
Euro	**150**		139	
Japanese Yen	**22**		66	
Canadian Dollar	**4**		92	
		1,136		1,355
		6,294		4,859

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

Currency exposures

As explained on page 12 in the Report of the Directors, the Group's objectives in managing currency exposures arising from its net investments overseas (its structural currency exposures) are to maintain appropriate levels of net assets in its overseas subsidiaries and associates. Gains and losses arising from these structural exposures are recognised in the statement of total recognised gains and losses. The Group did not have a material financial exposure to foreign exchange gains or losses on monetary assets and monetary liabilities denominated in foreign currencies at 31st December 2005.

Fair values of financial assets and liabilities

The carrying amounts and estimated fair value of the Group's outstanding financial instruments are set out below:

	2005 Net carrying amount £000's	**2005 Estimated fair value £000's**	2004 Net carrying amount £000's	2004 Estimated fair value £000's
Cash at bank and in hand and short term money market deposits	**6,294**	**6,294**	4,859	4,859
Derivative financial instruments:				
Foreign exchange contracts	**–**	**(131)**	–	228

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

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

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

The Group's unrecognised losses on financial instruments were £131,000 and these are expected to be realised in the next financial year (2004 – gains of £228,000 in the next financial year).

FIVE YEAR SUMMARY

CONSOLIDATED PROFIT AND LOSS ACCOUNT INFORMATION

Years ended 31st December

	2001 £000's	2002 £000's	2003 £000's	As restated 2004 £000's	**2005 £000's**
Turnover	29,626	30,712	28,512	27,686	**27,552**
Profit/(loss) on ordinary activities before taxation	1,623	2,923	2,003	(1,265)	**1,380**
Taxation	(623)	(870)	(697)	454	**(317)**
Profit/(loss) on ordinary activities after taxation	1,000	2,053	1,306	(811)	**1,063**
Earnings/(loss) per share	9.63p	19.75p	12.54p	(7.84p)	**10.57p**

CONSOLIDATED BALANCE SHEET INFORMATION

At 31st December

	2001 £000's	2002 £000's	2003 £000's	As restated 2004 £000's	**2005 £000's**
Capital employed					
Fixed assets	10,405	9,752	9,332	7,823	**6,748**
Net current assets	14,055	14,856	14,939	14,186	**14,369**
Provisions for liabilities and charges	(192)	(261)	(307)	(19)	**(43)**
Pension deficit net of related deferred tax	–	–	–	(2,358)	**(2,870)**
	24,268	24,347	23,964	19,632	**18,204**
Financed by					
Called up share capital	519	520	521	521	**521**
Share premium account and reserves	23,749	23,827	23,443	19,111	**17,683**
	24,268	24,347	23,964	19,632	**18,204**

Years 2001, 2002 and 2003 have not been restated to reflect the adoption of FRS 17 "Retirement Benefits" and FRS 21 "Events after the balance sheet date".

financial calendar

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

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