

# PORTMEIRION GROUP PLC

Report and Accounts 2010

Growing Great British  
Brands Worldwide

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## Financial Highlights

<b>Revenue</b>	<b>Cash generated from operations</b>
<b>+18.7%</b>	<b>+15.2%</b>
<b>£51.243m</b>	<b>£6.327m</b>
(2009 – £43.165m)	(2009 – £5.494m)
<b>Basic EPS</b>	<b>Dividends paid and proposed</b>
<b>+41.2%</b>	<b>+10.1%</b>
<b>34.91p</b>	<b>17.40p</b>
(2009 – 24.73p)	(2009 – 15.80p)

## Operational Highlights

- ▶ Record Group revenue
- ▶ Strong sales growth from Spode and Royal Worcester
- ▶ Growth across all 4 brands
- ▶ Strong overseas performance
- ▶ Launched over 250 new products in 2011
- ▶ 2 new retail outlets in the UK

	<b>2010</b>	2009	Increase
	<b>£'000</b>	£'000	%
Revenue	<b>51,243</b>	43,165	18.7
Pre-tax profit before exceptional items (note 5)	<b>5,448</b>	3,925	38.8
Pre-tax profit after exceptional items (note 5)	<b>5,249</b>	3,718	41.2
Cash generated from operations	<b>6,327</b>	5,494	15.2
Basic earnings per share	<b>34.91p</b>	24.73p	41.2
Dividends paid and proposed per share in respect of the year (note 13)	<b>17.40p</b>	15.80p	10.1

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Portmeirion Group PLC is British, based in Stoke-on-Trent. We are a significant force in the homewares industry, a market leader in high quality and innovatively designed tableware, cookware, giftware and tabletop accessories. Portmeirion Group encompasses four world leading brands.

PICTURED Portmeirion's  
Botanic Garden

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## Our Markets

Portmeirion Group sells its products directly to retailers in the US and the UK and through exclusive distributors and agents in over 60 other countries around the world. Its major markets are the US, the UK, South Korea and Canada.

### Overview

Portmeirion Group specialises in the design, manufacture and supply of innovatively designed quality ceramic and other homeware products. Our products include tableware, cookware and gifts, as well as complementary items from placemats and coasters to vases and candles.

Operating in varied market sectors from casual to formal dining with mid price to prestige products, Portmeirion Group is a significant force in the tableware and homewares industry.

Details of our factory shops are shown on page 80. Worldwide stockists of our products can be found on our website [www.portmeiriongroup.com](http://www.portmeiriongroup.com).

Portmeirion Group PLC has four exceptional brands:

Portmeirion has an established reputation for fashionable yet timeless collections of tableware and gifts of unique design. The brand has continued to develop and diversify from its early foundations set down by its co-founder Susan Williams-Ellis in the 1960s.

From its beginning in 1776, Spode has epitomised inventive and sophisticated designs for generations. A quintessentially British brand, Spode is known for its successful ranges of classic tableware. Under Portmeirion Group ownership, the brand has seen substantial elements of its range returned to manufacture in England.

Royal Worcester, established in 1751, is one of the oldest English ceramic brands, renowned for the skill and dexterity applied to its ranges. With a rich English heritage, the brand is well positioned to appeal to a broad audience across a wealth of designs.

Since 1933 Pimpernel has gathered a reputation as the premier brand for placemats and coasters, offering unparalleled choice and superior quality to an ever demanding and trend conscious consumer worldwide.

## Our Brands

# Portmeirion

Portmeirion is committed to producing innovative designs that sit comfortably with everyday life, as epitomised by the famous Botanic Garden range. The diversity of high quality products within the Portmeirion brand delivers not only beautiful designs but practicality for modern living.

Portmeirion range individuality comes to the fore in award winning collections such as Sophie Conran for Portmeirion, and continues into 2011 with new launches, such as the well received Dawn Chorus range. Visit [www.portmeirion.com](http://www.portmeirion.com)

### **Portmeirion Ranges**

*Botanic Blue, Botanic Garden, Botanic Roses, Crazy Daisy, Dawn Chorus, Eden, Pomona, Secret Garden, Sophie Conran for Portmeirion, The Holly and The Ivy, The Snowman, The Very Hungry Caterpillar and Watercolour*

**PICTURED** Sophie Conran  
for Portmeirion

## Our Brands continued

# Spode

With a rich heritage, the well established Spode brand has a classic product portfolio that appeals across generations and includes many favourites such as Blue Italian and Christmas Tree

Under Portmeirion Group ownership, Spode ranges continue to flourish with substantial investment in the brand. Spode is well positioned to develop in the premium sector of the market. New ranges are focused on modern day sophisticated entertaining, attuned to the needs of today's consumer whilst drawing on the impressive design archive within the brand.

Visit [www.spode.com](http://www.spode.com)

### Spode Ranges

*Asymmetry, Baking Days, Blue Italian, Blue Room, Christmas Tree, Paddington Bear and Woodland*

*Bone China, Christmas Rose, Isabella, Kara, Nectar, Petal Platinum, Sophia, Stafford Flowers and Stafford White*

PICTURED Spode's  
Christmas Tree

## Our Brands continued

# Royal Worcester

From its origins in the heart of England, the Royal Worcester brand epitomises the art of country living that has appeal to consumers worldwide. Purchased by Portmeirion Group in 2009, the brand encompasses popular ranges such as Classic White and Evesham Gold that continue to thrive.

New ranges, including the Royal Worcester mug collections, illustrate a breadth of artistic themes whilst giftware elements will enhance the brand's future development. In 2011, the Royal Wedding will be celebrated with two distinct designs. Visit [www.royalworcester.com](http://www.royalworcester.com)

### **Royal Worcester Ranges**

*Classic White, Evesham Gold, Painted Fruit and the Royal Wedding Collection*

*Bone China, Corinth Platinum, Howard Blue, Holly Ribbons and Monaco Platinum*

*Glassware: Cirrus and Flow*

**PICTURED** Royal Worcester's  
Evesham Gold

Our Brands continued

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Pimpernel

Pimpernel continues to offer an unrivalled selection of quality, exclusive, decorative placemat and coaster designs. The range is growing within the home accessories market with extensions into textile and tray sectors encompassing classic popular designs from both Portmeirion Group brands and exclusive licensed artwork. A new category of children's melamine dinnerware utilising the popular Eric Carle's The Very Hungry Caterpillar design has proved successful, breaking new ground for the brand.

**Pimpernel**  
*Placemats, coasters, trays & accessories, mugs, children's dinnerware & cutlery in an extensive array of designs*

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**PICTURED** Pimpernel's Farm House shown with Spode's Baking Days

## Business Review

"We are delighted to report another record year with growth across all four brands"

2010 was a year of opportunity and success for the Portmeirion Group. We had previously enjoyed record revenues in 2009, and in 2010 we had another record year growing revenues by 18.7% to £51.2 million (2009 – a 35.6% increase to £43.2 million). We were able to build upon the acquisition of the Spode and Royal Worcester brands to further consolidate our position as an internationally renowned homewares group, and our established Portmeirion and Pimpernel brands also had record years.

When we acquired the Spode and Royal Worcester brands in April 2009 we forecasted revenues of £19 million from these brands by the end of 2010, we actually achieved revenues of £22 million during this period. The acquisition cost of the Spode and Royal Worcester brand names was £2.2 million.

### Dividend

The Board is recommending a final dividend of 13.50p, bringing the total paid and proposed for the year to 17.40p, 10.1% higher than the total paid in respect of 2009. The dividend will be paid, subject to shareholders' approval, on 25 May 2011 to shareholders on the register on 26 April 2011. Dividends paid and proposed are covered 2.0 times by earnings (2009 – 1.6 times), the Board considers that such a level of cover is sustainable.

### Results for the year

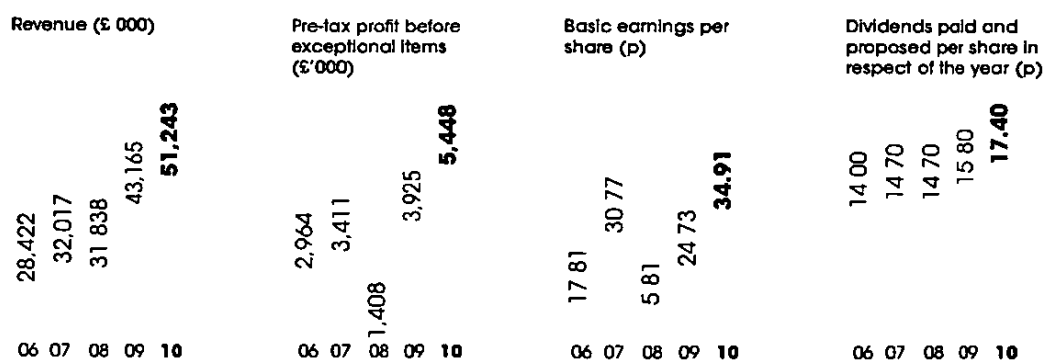
Revenues increased by 18.7% to £51.2 million (2009 – £43.2 million), this is the highest revenue figure ever recorded by Portmeirion Group. Within this 18.7% rise the USA accounted for 9.2% and South Korea provided 6.0%. There was little effect from the US dollar/sterling exchange rate. UK sales suffered a 3.7% reduction in revenues, reflecting the general decline in UK retail sales during 2010, particularly during the important Christmas season.

The pre-exceptional profit before tax was £5.4 million, an increase of 38.8%, (2009 – £3.9 million) and pre-exceptional EBITDA was £6.6 million (2009 – £5.6 million). Profit before tax was £5.2 million (2009 – £3.7 million).

The most important effect on profitability was the increased revenues, with a large part of the consequent gross margin feeding through to profit.

We have taken the opportunity afforded by our increased revenues to increase our marketing and product development spend to record levels, such expenditure is an investment for future benefit.

### Financial Highlights 2010



## Business Review continued

**PICTURED** The Stoke-on-Trent showroom was refurbished in 2010 to display the Group's brands and excellent product range to best advantage

Our largest market is the United States which accounts for 41% of our revenues (2009 – 40%), taken together with Canada this means that North America accounts for 45% of our revenues (2009 – 44%). We service the United States from a showroom and office in New York and a warehouse in Connecticut. The Canadian market is handled by our Joint Venture partner, Portmeirion Canada Inc. South Korea now accounts for 19% (2009 – 17%) of our revenues, close behind the UK at 25% (2009 – 30%).

### Balance Sheet

The Group has a strong cash position, we ended the year with a net cash balance of £6.2 million (2009 – £4.4 million). The year end is close to being our high point for cash. In September and October the Group had a small amount of net borrowings as stocks and debtors peaked to support our sales to retailers for the important Christmas trade. We expect a similar working capital cycle in 2011.

250 products already  
launched in 2011,  
including a Royal  
Wedding collection  
from Royal Worcester

**PICTURED** Portmeirion's  
Botanic Garden  
measuring spoons

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## Business Review continued

Profit has clearly been an important factor in improving our cash balances. Our stock holdings have been well controlled, with an 18.7% increase in revenues, stock levels have only increased by 9.9% to £9.7 million. Our stock turn in 2010 was 2.6 which is a significant improvement on 2009 (2.1) and also on 2008 (1.6).

The intangibles figure in our Balance Sheet of £2.0 million is mainly in respect of the acquisition of the Spode and Royal Worcester brands, these balances are being amortised over 10 years. These two brand names generated revenues of £13.5 million in 2010 (2009 – £8.5 million) and although they are already two centuries old we consider that they still have many years of life ahead of them.

The pension scheme deficit in the balance sheet, in respect of the closed final salary scheme, is £4.3 million (2009 – £3.6 million). We have made a cash contribution to the scheme of £1.0 million during the year (2009 – £0.6 million). The deficit and the resulting cash contribution are burdens borne by the business which are of no trading benefit to us. They have arisen because of varying actuarial assumptions, for example on mortality, under performance of equity investments and changes to tax legislation. However, the scheme deficit is closely monitored, controlled and affordable.

### Products

We are a customer attentive, design led business. Product development is key to our future, and expenditure on this vital area now amounts to nearly 2% of revenues, this increase is as it should be. In 2010 we introduced over 200 new lines into existing patterns in all our brands. Botanic Garden, first launched in 1972, now generates revenues of some £20 million per annum.

Our plans for the future include increasing the spend on product development. In 2011 we have already launched 250 new lines including six completely new bone china patterns, and Paddington Bear as a licensed range which will complement The Very Hungry Caterpillar and The Snowman ranges.

A list of our current patterns can be found within the Our Brands section of this report on pages 4 to 7, and also at [www.portmeirion.com](http://www.portmeirion.com), at [www.spode.com](http://www.spode.com) and at [www.royalworcester.com](http://www.royalworcester.com), these sites also list stockists and items that may be purchased online.

### Production

Our strategy is to obtain products from the most appropriate source. Our Stoke-on-Trent factory is producing at its highest ever levels, and our kilns are now running 24 hours a day, 7 days a week. We make fine earthenware in our Stoke factory – Botanic Garden, The Holly & The Ivy, Pomona, Blue Italian and Woodland – for which we have a worldwide reputation. We do not make porcelain, stoneware or bone china, these product lines are sourced internationally to our exacting quality standards. Our backstamps are guarantees of quality.

Our high current levels of production have inevitably meant that costs have been subservient to volumes, in the current year we are addressing these issues.

### Sales and Marketing

Our sales reach is worldwide and we currently export to over 60 countries. In the USA, our largest market, we have our own subsidiary company, our own employees and our own showroom and warehouse. In Canada we operate with a joint venture partner. In other major markets we operate together with carefully selected local distributors. Our product development is country specific.

We invest heavily in national and international homeware shows. In the USA, the UK and Europe.

In 2010 we enjoyed sales of £0.3 million in Russia and £0.1 million in China. These opportunities for new market growth remain part of our focus for international market expansion.

### People

We increased the average number of people employed during the year to 532, a 9% increase on the 487 employed in 2009. Sales per employee were £96,321 for 2010, a 9% increase on the 2009 figure of £88,634. The increase in sales per employee is a reflection of the growing added value in the business.

## Business Review continued

All employees, excluding the Non-executive Directors, participate in annual incentive schemes and these schemes paid out maximum awards in 2010, deservedly so

Health and safety, and employee welfare are a high priority in our business

### Risks

The Report of the Directors on pages 14 and 15 lists the principal risks which we consider the business is subject to, three of these risks are worthy of further discussion here

Our sales in US dollars are roughly equivalent to our purchases in US dollars and our risk here is, therefore, naturally hedged. We also have net receipts of Canadian dollars, Euros and to a lesser degree other European currencies. We use forward currency contracts to hedge against rate movements on these currencies where our exposure is expected to be significant

Our sourcing and our sales are worldwide, which helps to control our exposure to any one territory, however, we are vulnerable to major shifts in the United States, UK, South Korea and China

Producing ceramics requires energy, whether we produce them ourselves or have them produced for us. We have made great strides in reducing our energy consumption but we remain exposed to price volatility in the energy markets

### Outlook

We remain confident for the future. Our proven strategy is to lead with design, ensure the quality of the product, sell with professionalism, be conservative with our finances and nurture the brands

We will continue to evaluate acquisition opportunities which we believe will complement and strengthen the Group

Whilst not necessarily an indication of full year performance, revenues for the first two months of 2011 are 15% above the corresponding period last year. The outlook for the remainder of 2011 is positive



**Richard Steele**  
Non-executive Chairman



**Lawrence Bryan**  
Chief Executive

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## Board of Directors Executive Directors

Lawrence Bryan  
Chief Executive

Michael Haynes  
Group Sales and  
Marketing Director

Brett Phillips  
Group Finance Director  
and Company Secretary

**Lawrence F. Bryan**

*Chief Executive*

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

**Michael Haynes**

*Group Sales and Marketing Director*

Michael Haynes is Group Sales & Marketing Director. He joined the Group in 2004 and was appointed to the Board in 2007. In addition to sales and marketing he is also responsible for all outsourced products. He has considerable experience in the tableware and glassware business. His business career in sales and marketing has covered such diverse fields as groceries, toiletries, cosmetics, silverware, china and glass. He ran his own consultancy business for many years and helped Portmeirion develop its Far East business before joining the Group.

**Brett W.J. Phillips**

*Group Finance Director and  
Company Secretary*

Brett Phillips is Group Finance Director and Company Secretary. He joined the Group in 1988. He is responsible for all aspects of financial control, information systems, and management reporting, human resources, intellectual property, legal and company secretarial matters. He represents the Group on all subsidiary Boards, and is Chairman of the Board of Furlong Mills Limited.

# Board of Directors continued

## Non-executive Directors

Richard Steele  
Non-executive Chairman

Janis Kong  
Non-executive Director

Barbara Thomas Judge  
Non-executive Director

### Richard J. Steele

*Non-executive Chairman*

Prior to being appointed Non-executive Chairman, Dick Steele was the Senior Non-executive Director and is a Chartered Accountant and a Member of the Institute of Taxation. He has spent ten years as Group Finance Director of listed companies. He is also Non-executive Chairman of Bladon Castle Management Limited, Country Baskets, Racoon International Holdings Limited and Rusland Management Limited.

### Janis Kong

*Non-executive Director*

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

### Lady Judge

*Non-executive Director*

Lady Judge is a lawyer, international banker and entrepreneur. She is Chairman of the Pension Protection Fund. Formerly she was Chairman of the UK Atomic Energy Authority, Deputy Chairman of the School of Oriental and African Studies, a Commissioner of the United States Securities and Exchange Commission and an Executive Director of News International and Samuel Montagu plc.

### Board Committees

#### Audit Committee

R J Steele (Chairman)  
J Kong  
Lady Judge

#### Remuneration Committee

R J Steele (Chairman)  
J Kong  
Lady Judge

#### Nomination Committee

R J Steele (Chairman)  
J Kong  
Lady Judge  
L F Bryan

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## Report of the Directors

The Directors have pleasure in presenting their annual report on the affairs of the Group, together with the audited financial statements of the Company and its subsidiary undertakings for the year ended 31 December 2010. The Corporate Governance Statement set out on pages 27 to 30 forms part of this report.

### Principal activities

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

The subsidiary and associated undertakings of the Group are listed in note c of the notes to the Company Financial Statements on page 75.

### Business review

A full review of the performance of the Group for the year is given in the section of the Business Review entitled "Results for the year" on page 8. Current trading and the future are commented on in the "Outlook" section of Business Review, on page 11. That information is incorporated into this report by reference and together with the paragraphs that follow, comprise the business review required by the Companies Act 2006.

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

### Results and dividends

The results for the year are set out on page 34. The movements on reserves are shown in notes 25 and 26.

On 1 October 2010 an interim dividend of 3.90p (2009 – 3.55p) per share was paid on the ordinary share capital. The Directors recommend that a final dividend of 13.50p per share be paid (2009 – 12.25p), making a total for the year of 17.40p (2009 – 15.80p) per share. The final dividend will be paid, subject to shareholders' approval, on 25 May 2011, to shareholders on the register at the close of business on 26 April 2011.

### Key performance indicators

The Group Board uses a range of performance measures to monitor and manage the business. The Board regards measures relating to the delivery of shareholder value as particularly important. These measures, together with their comparatives, are shown in the financial highlights on the inside front cover of the Report and Accounts. There are also a number of non-financial performance measures used to manage the business. These include customer service levels, incidence of accidents and new product delivery performance.

### Research and development

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

### Principal risks and uncertainties

The Group Board considers the risks to the business at every Board meeting. It formally reviews and documents the principal risks to the business at least annually.

# Report of the Directors continued

Principal risks identified in addition to those discussed in the Business Review on page 11 include

- Economic downturn – economic downturn is a risk for the Group. The Group monitors and maintains close relationships with its key customers and suppliers to be able to identify signs of financial difficulties early. Sales trends in its major markets are constantly reviewed to enable early action to be taken in the event of sales declining.
- Competitor pressure – competitor pressure is a continuing risk for the Group, which could result in losing sales to key competitors. The Group manages this risk by providing quality products and maintaining strong relationships with its key customers.
- Reliance on key suppliers – the Group's purchasing activities could expose it to over reliance on certain suppliers and inflationary pricing pressure. To mitigate this, the Group seeks to ensure there is enough breadth in its supplier base such that this risk remains manageable.
- Loss of key personnel – the loss of key personnel would present significant operational difficulties for the Group. Management seek to ensure that key personnel are appropriately remunerated to ensure that good performance is recognised.

Details of the Group's financial risk management policies are included in note 31 on page 66.

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 8 to 11. In addition, note 31 to the financial statements includes the Group's financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

At 31 December 2010, the Group had a net cash balance of £6.2 million and an unused bank facility with available funding of £4 million. It manufactures approximately half of its products and sources the other half from third party suppliers. The Group sells into a number of different markets worldwide and has a spread of customers within its major UK and US markets. Consequently, the Directors believe that the Group is well placed to manage its business risks successfully despite the continuing uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

## Directors and their interests

The Directors of the Company, who served throughout the year, are listed on pages 12 to 13 together with biographical and committee membership details. Lady Judge and R. J. Steele will retire at the Annual General Meeting to be held on 18 May 2011 in accordance with the Company's Articles of Association. Lady Judge and R. J. Steele, being eligible, are offering themselves for re-election. The Board has formally reviewed the performance of these Directors and concluded that they remain effective and are committed to their roles at Portmeirion Group PLC.

Further details on the composition of the Board and appointment of Directors is given in the Corporate Governance Statement on pages 27 to 30.

## Report of the Directors continued

The Directors who held office at 31 December 2010 had the following beneficial interests in the share capital of the Company

	<b>At 31 December 2010</b>	<b>At 31 December 2009</b>
	<b>5p ordinary shares</b>	<b>5p ordinary shares</b>
	<b>Beneficial</b>	<b>Beneficial</b>
L F Bryan	<b>202,000</b>	179,144
M Haynes	<b>25,000</b>	15,000
Lady Judge	<b>5,000</b>	5,000
J Kong	<b>5,000</b>	5,000
B W J Phillips	<b>40,455</b>	30,455
R J Steele	<b>20,000</b>	20,000

Directors' share interests include the interests of their spouses, civil partners and infant children, or stepchildren as required by Section 822 of the Companies Act 2006. There were no changes in the beneficial interests of the Directors in the Company's shares between 31 December 2010 and 22 March 2011.

Details of Directors' share options are provided in the Directors' Remuneration Report on pages 25 and 26. Details of transactions with Directors and other related parties are to be found in note 29 on page 62.

### Directors' indemnities

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

### Capital structure

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

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

Details of employee share schemes are set out in notes 24 and 32.

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

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act 2006 and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Corporate Governance Statement on page 27.

# Report of the Directors continued

## Substantial shareholdings

In addition to the Directors' interests notified above, the Company had been notified of the following beneficial interests in 3% or more of its issued share capital excluding treasury shares as at 22 March 2011 as follows

	Percentage of voting rights and issued share capital	Number of ordinary shares
New Fortress Finance Holdings Ltd BVI*	27.94%	2,795,000
Trustees of Caroline Fulbright Settlement*	14.36%	1,436,195
Euan Cooper-Willis	8.86%	886,150
Shahrzad Farhadi	6.32%	632,333
Kamrouz Farhadi	5.63%	562,917
Trustees of Second Caroline Fulbright Settlement*	3.56%	356,077

\* Shareholding held indirectly through a nominee. All other holdings are direct holdings.

## Annual General Meeting

The Annual General Meeting will be held at the registered office of the Company at London Road, Stoke-on-Trent, on 18 May 2011 at 12.00 noon (the "2011 AGM"). All ordinary and special resolutions to be proposed at that meeting are detailed in the Notice of Annual General Meeting. As special business at the 2011 AGM, the following resolutions will be proposed together with the resolution described below regarding market purchases of the Company's shares:

- **Authority to allot shares** – under section 551 of the Companies Act 2006, the Directors of a Company may only allot unissued shares or any rights to subscribe for or to convert any security into shares in the Company if authorised to do so. The resolution giving authority to allot shares, if passed, will continue to provide flexibility for the Directors to act in the best interests of shareholders, when opportunities arise, by issuing new shares, and replaces the authority given at the Annual General Meeting of the Company held on 20 May 2010. The authority will allow the Directors to allot new shares up to a nominal value of £166,713, approximately equal to a third of the present issued share capital excluding treasury shares as at 22 March 2011. The Directors have no current intention of exercising this authority except in relation to the allotment of shares under the share option schemes.
- **Disapplication of pre-emption rights** – if equity securities are to be allotted for cash, section 561(1) of the Companies Act 2006 requires that those equity securities are offered first to existing shareholders in proportion to the number held by them at the time of the offer and otherwise in compliance with the technical requirements of that Act. Those pre-emption provisions also apply to the sale of treasury shares by the Company. However, it may be in the interests of the Company for the Directors to allot shares and/or sell treasury shares other than to shareholders in proportion to their existing holdings or otherwise than strictly in compliance with those requirements. This resolution would allow the Directors, pursuant to section 570 and section 573 of the Companies Act 2006, to allot shares and to sell treasury shares for cash without first offering them to shareholders in accordance with that Act. The authority is limited to the issue of equity securities and/or sale of treasury shares for cash up to a maximum nominal amount of £50,014, which is equivalent to 10 per cent of the total issued ordinary share capital of the Company excluding treasury shares as at 22 March 2011, and allotments of equity securities and/or sale of treasury shares in connection with a rights issue or other offer to shareholders. The authority is in accordance with guidelines issued by the National Association of Pension Funds.

## Report of the Directors continued

### **Acquisition of the Company's own shares**

The Company did not purchase any of its own shares during the year. The Company holds 560,218 treasury shares, purchased at an average cost of 187p per share. At the end of the year, the Directors had authority, under a shareholders' resolution of 20 May 2010, to purchase through the market 991,995 of the Company's ordinary shares. This authority expires on 30 June 2011.

The Directors believe that it is in the interests of the Company and its members to continue to have the flexibility to purchase its own shares and resolution 9 of the 2011 AGM seeks authority from members to allow the Company to make market purchases, subject to the restrictions set out in the Notice of Annual General Meeting, and in particular to the maximum number of ordinary shares that may be purchased being 1,000,281, approximately equal to 10% of the issued share capital of the Company excluding treasury shares as at 22 March 2011. The Directors intend to renew this authority annually but only to exercise the authority where, after considering market conditions prevailing at the time, the investment needs of the Company, its opportunities for expansion and its overall financial position, they believe the effect of such exercise would be to increase the earnings per share and be in the best interests of shareholders generally.

### **Environment**

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

During 2010, the Group completed a ten year Climate Change Agreement achieving a rebate on the Climate Change Levy in return for reducing our Specific Energy Consumption by more than 30%. Over the ten year period, the Group reduced Specific Energy Consumption by 46.4% and Total Energy Consumption by 38.8%.

### **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 2010, to complement these discussions, the Group has continued communicating information from Board level to all employees on a regular basis via a programme of team briefings.

Share option and profit related incentive schemes are operated to encourage the involvement of employees in the Group's performance. Portmeirion Group UK Limited, the employer of the Group's UK based employees, is an Investor in People. The Directors are committed to the continuing development of the Group's employees via the principles of Investors in People. See note 8 on page 50 for staff numbers and costs.

### **Employment of disabled persons**

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

# Report of the Directors continued

## Creditor payment policy

Payment terms are agreed with each of the Group's major suppliers. The Group abides by these terms provided that the supplier also complies with the agreed terms and conditions. The policy for other suppliers is generally to make payment by the end of the month following receipt of a valid invoice. All payment terms are stated at the time orders are placed. The number of days purchases represented by trade creditors at 31 December 2010 was 41 (2009 – 42). The Company has no trade creditors.

## Financial position

The Group's net funds (cash and cash equivalents less borrowings) at 31 December 2010 were £6.2 million (2009 – £4.4 million).

## Charitable and political contributions

Contributions to various charities in the form of goods to be used for charitable raffles amounted to £2,164 (2009 – £2,138) at cost during the year. In addition, cash donations of £1,000 (2009 – £1,250) were made to registered charities. There were no political contributions during the year.

## Auditors

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

- (1) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (2) the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Mazars LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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

  
**B.W.J. Phillips**  
 Company Secretary  
 22 March 2011

## Directors' Remuneration Report

### Introduction

As a Company listed on the Alternative Investment Market (AIM), the Company is not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (accounts and reports) Regulations 2008 (the "Regulations") under the Companies Act 2006 (the "Act"). 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 this report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

### Remuneration committee

The members of the Remuneration Committee during 2010 are set out on page 13. R J Steele is Chairman of the Remuneration Committee. There have been no changes in the composition or Chairmanship of the Remuneration Committee during the year. None of the Committee has any personal financial interest (other than as shareholders), conflicts of interest 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.

During 2010, Pinsent Masons LLP provided advice on the implementation of The Portmeirion Group 2010 Deferred Incentive Share Option Plan for Executive Directors. In determining the Directors' remuneration for the year, the Committee consulted L F Bryan, Chief Executive, about its proposals.

The Committee meets at least twice a year to review and determine the remuneration of the Executive Directors. During 2010, the Committee met twice. In addition, the Committee held meetings at other times throughout the year to deal with share option awards and exercises.

### 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 is 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 and benefits,
- Annual incentive 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 in order to encourage and reward maximising business performance and shareholder returns. In determining the remuneration arrangements for Executive Directors the Committee is sensitive to pay and employment conditions elsewhere in the Group, especially when determining base salary increases.

# Directors' Remuneration Report continued

Executive Directors are entitled to accept appointments outside the Group providing that the Chairman grants his permission

The following table provides a summary of the key elements of the remuneration package

	Purpose	Operation
Base salary	To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the Group	Reviewed annually taking into account industry standard executive remuneration and pay levels elsewhere within the Group
Annual incentive	Recognises achievement of annual objectives which support the short to medium term strategy of the Group	Based on achievement of a demanding profit before tax and exceptional items target
Share Option Scheme	Setting value creation through share price growth as a major objective to Executive Directors and senior managers. Alignment of option holder interests with those of shareholders through the delivery of shares	Subject to earnings per share ("EPS") performance measurement to reflect operational performance as EPS is a significant factor in determining the market's view of the Group's value
Deferred Incentive Share Option Plan	Incentivising and retaining Executive Directors whilst aligning their interests with those of shareholders through delivery and retention of shares	Discretionary award over shares not exceeding a market value of 20% of the gross annual incentive payment earned by the Executive Director in respect of the previous financial year
Pension	Providing post retirement benefits	The Group operates defined contribution pension schemes. Previous money purchase plans and defined benefit pension schemes have been frozen, i.e. closed with preserved benefits

## Basic salary and benefits in kind

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

## Annual incentive payments

Each Executive Director's remuneration package includes an annual incentive payment. If the profit before tax and exceptional items exceeds an annual target, then an incentive will be paid. The incentive is a percentage of the Executive Director's basic pay which is linked to the amount by which profit before tax and exceptional items exceeds the target. The maximum incentive payable is 100% of basic salary. For 2010, maximum incentives were earned.

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

## Directors' Remuneration Report continued

### Share options continued

The Company has a share option scheme, The Portmeirion 2002 Share Option Scheme ("2002 Share Option Scheme")

Earnings per share has been selected as a measure of performance as it directly reflects operational performance and is also a significant factor in determining the market's view of the Group's value. The following performance criteria are applicable to outstanding options:

- Options granted under the 2002 Share Option Scheme on 4 April 2007 could normally only be exercised if the basic earnings per share of the Group for the year ended 31 December 2009 were more than 20% higher than the basic earnings per share of the Group for the year ended 31 December 2006. This performance measure was achieved.
- Options granted under the 2002 Share Option Scheme on 15 April 2008 can normally only be exercised where the pre-tax, pre-exceptional earnings per share of the Group for the year ending 31 December 2010 exceeds 41.63p, being 120% of the pre-tax, pre-exceptional earnings per share of the Group for the year ended 31 December 2007. This performance criteria has now been met.
- Options granted under the 2002 Share Option Scheme on 28 May 2009 can normally be exercised if the average of the pre-tax, pre-exceptional earnings per share of the Group for each of the three years ending 31 December 2009, 31 December 2010 and 31 December 2011 exceeds 16.06p, being 113% of the pre-tax, pre-exceptional earnings per share for the year ended 31 December 2008.
- Options granted under the 2002 Share Option Scheme on 29 March 2010 can normally be exercised if the average of the pre-tax, pre-exceptional earnings per share of the Group for each of the three years ending 31 December 2010, 31 December 2011 and 31 December 2012 exceeds 44.71p, being 113% of the pre-tax, pre-exceptional earnings per share for the year ended 31 December 2009.

### Long-term incentive schemes

The Company introduced The Portmeirion Group 2010 Deferred Incentive Share Option Plan (the "2010 Deferred Incentive Plan") during the year following shareholder approval at the AGM in May 2010. The Plan was established to incentivise and retain Executive Directors and encourage them to acquire and retain shares in the Company. The Plan operates in conjunction with the Group's existing annual incentive arrangements.

The 2010 Deferred Incentive Plan permits the grant of an option to a participant in any year over shares with a market value not exceeding 20 per cent of the gross incentive earned by the relevant employee in respect of the previous financial year. Options are exercisable normally only after the third anniversary of the date of grant. On exercise, provided that the participant is still employed by the Group (or has left due to limited good leaver provisions as stated in the rules of the 2010 Deferred Incentive Plan) the participant will be entitled to receive a "grossed-up" payment (i.e. a payment which after discharge of necessary taxes (including National Insurance contributions) leaves a net amount) sufficient to pay the taxes (including National Insurance contributions) due in respect of the exercise of the option (subject to a cap on the maximum tax and National Insurance rates covered). The Remuneration Committee believes this payment is appropriate so as to ensure that the shares are acquired without any need to sell the shares to generate cash to cover tax liabilities. Options may be satisfied by an issue of shares (including out of treasury).

Options under the 2010 Deferred Incentive Plan can only be granted to the extent performance targets relating to the annual incentive payment arrangements are met. The exercise of options granted under the 2010 Deferred Incentive Plan, are not, therefore, subject to the satisfaction of performance targets.

# Directors' Remuneration Report continued

## Pensions

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

On 31 October 2002 the Portmeirion Potteries Pension Plan, a contracted-in money purchase occupational pension plan, closed. Brett W J Phillips was a member of the plan at that time and holds preserved benefits. On 5 April 1999, the defined benefit UK pension scheme was frozen, i.e. closed to new entrants and to future accrual. Brett W J Phillips was a member of the scheme at that time and holds preserved benefits.

Lawrence F Bryan receives pension contributions for a money purchase pension operated by the Group in the United States. Annual performance related incentives are not subject to contributions by the Group to the money purchase pension arrangements maintained for the Directors.

## Directors' contracts

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

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

	Date of Contract	Notice Period
L F Bryan	08 11 2002	12 months
M Haynes	01 01 2007	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 and benefits that the executive would have received during the balance of the notice period, plus any incentive once declared, to which he would have become entitled had contractual notice been given.

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

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

## Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2010 £	2009 £
Emoluments	1,425,371	1,198,740
Money purchase pension contributions	46,382	41,525
	1,471,753	1,240,265

## Directors' Remuneration Report continued

### Directors' emoluments

	Salary & fees £	Benefits £	Incentive £	Gains made on exercise of share options £	Subtotal £	Pension contri- butions £	2010 Total £	2009 Total £
<b>Executive</b>								
L F Bryan <sup>(1)</sup>	297,658	19,755	297,658	17,142	632,213	14,807	<b>647,020</b>	544,309
M Haynes	150,000	4,243	150,000	19,500	323,743	10,125	<b>333,868</b>	271,558
B W J Phillips	165,000	6,165	165,000	6,250	342,415	21,450	<b>363,865</b>	315,398
<b>Non-executive</b>								
Lady Judge <sup>(2)</sup>	26,000	-	-	-	26,000	-	<b>26,000</b>	22,500
J Kong	26,000	-	-	-	26,000	-	<b>26,000</b>	22,500
R J Steele <sup>(3)</sup>	75,000	-	-	-	75,000	-	<b>75,000</b>	64,000
	<b>739,658</b>	<b>30,163</b>	<b>612,658</b>	<b>42,892</b>	<b>1,425,371</b>	<b>46,382</b>	<b>1,471,753</b>	1,240,265

#### Notes

<sup>(1)</sup> L F Bryan is remunerated in US dollars and his remuneration is translated into sterling at the average exchange rate for the year in 2010 This was \$1 5454/£ (2009 - \$1 5659/£)

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

<sup>(3)</sup> The remuneration for R J Steele was made to Adsum Limited in respect of his services

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

### Directors' pension entitlements

Brett W J Phillips is a member of the Group's defined benefit pension scheme which was frozen on 5 April 1999 He had accrued entitlements under the scheme as follows

	Accrued pension at 01 01 10 £	Decrease in accrued pension in the year £	Accrued pension at 31.12.10 £
B W J Phillips	23,679	(216)	<b>23,463</b>

#### Notes

1 Inflation has been taken to be -1.4% for the purposes of adjusting last year's accrued pension in excess of Guaranteed Minimum Pension (GMP), being the fall in the Retail Prices Index for the relevant period, with GMP subject to fixed increases of 6.25% pa

2 The pension accrued to 31 December 2010 allows for the cessation of benefit accrual on 5 April 1999 Only statutory revaluation has been allowed from that date

# Directors' Remuneration Report continued

His accrued benefits under the scheme were as follows

	Transfer value at 01 01 10 £	Increase in transfer value in the year £	Transfer value at <b>31.12.10</b> £
B W J Phillips	477,345	78,221	<b>555,566</b>

## Notes

- 1 The transfer values were calculated on a basis in accordance with the Occupational Pension Schemes (Transfer Values) Regulations 1996 (SI 1996/1847)
- 2 In the calculation of the transfer values above, it is assumed that the Scheme will have adopted amendments to its Rules replacing previous HMRC limits with the allowances facilitated by the Finance Act 2004 by the time the transitional period ends on 5 April 2011

## Directors' share options and long term incentives

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

Details of options held under the 2002 Share Option Scheme by Directors who served during the year are as follows

Director	Number of Options				At 31.12.10	Exercise Price	Dates on which exercisable	
	At 01 01 10	Granted	Exercised	Surrendered			Earliest	Latest
L F Bryan	80,000	-	22,856	-	<b>57,144</b>	345 0p	01 04 2010	03 04 2011
L F Bryan	38,000	-	-	-	<b>38,000</b>	260 0p	16 04 2011	14 04 2012
L F Bryan	70,000	-	-	-	<b>70,000</b>	197 5p	29 05 2012	27 05 2019
L F Bryan	-	70,000	-	-	<b>70,000</b>	374 5p	30 03 2013	28 03 2020
M Haynes	55,000	-	10,000	-	<b>45,000</b>	345 0p	01 04 2010	03 04 2011
M Haynes	24,000	-	-	-	<b>24,000</b>	260 0p	16 04 2011	14 04 2012
M Haynes	45,000	-	-	-	<b>45,000</b>	197 5p	29 05 2012	27 05 2019
B W J Phillips	55,000	-	10,000	-	<b>45,000</b>	345 0p	01 04 2010	03 04 2011
B W J Phillips	24,000	-	-	-	<b>24,000</b>	260 0p	16 04 2011	14 04 2012
B W J Phillips	45,000	-	-	-	<b>45,000</b>	197 5p	29 05 2012	27 05 2019
B W J Phillips	-	45,000	-	-	<b>45,000</b>	374 5p	30 03 2013	28 03 2020

## Notes

- 1 The performance criteria attaching to share options are detailed on page 22
- 2 The Company's share price reached a high of 550p and a low of 305p during 2010 The average share price during 2010 was 386 11p The share price on 31 December 2010 was 530p
- 3 There have been no changes to the Directors' interests in the shares or options over shares of the Company between 31 December 2010 and 22 March 2011

## Directors' Remuneration Report continued

Details of the options exercised under the 2002 Share Option Scheme during the year are as follows

Director	Date of exercise	Number of options exercised	Exercise price	Market price on exercise	Gains on exercise 2010	Gains on exercise 2009
B W J Phillips	01 04 2010	10,000	345 0p	407 5p	<b>£6,250</b>	-
L F Bryan	28 04 2010	22,856	345 0p	420 0p	<b>£17,142</b>	-
M Haynes	22 12 2010	10,000	345 0p	540 0p	<b>£19,500</b>	-

Details of options held under the 2010 Deferred Incentive Plan by Directors who served during the year are as follows

Director	At 01 01 10	Number of options			At 31.12.10	Dates on which exercisable	
		Granted	Exercised	Surrendered		Earliest	Latest
L F Bryan	-	13,654	-	-	<b>13,654</b>	28 05 2013	25 08 2013
M Haynes	-	6,948	-	-	<b>6,948</b>	28 05 2013	25 08 2013
B W J Phillips	-	7,750	-	-	<b>7,750</b>	28 05 2013	25 08 2013

### Notes

- 1 The exercise price payable by the option holder to acquire shares upon the exercise of a 2010 Deferred Incentive Plan option is £1 in respect of all of the shares under option for that particular award
- 2 There were no options exercised under the 2010 Deferred Incentive Plan during the year

### Approval

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

  
**B W.J. Phillips**  
Company Secretary  
22 March 2011

# 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 June 2008 (the "Code") nor the UK Corporate Governance Code June 2010 (the "2010 Code") (which will apply for companies with accounting periods beginning on or after 29 June 2010) 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. The Board comprises three Executive and three Non-executive Directors. The Board considers, after careful and rigorous review, that the Non-executive Directors bring an independent judgement to bear. The Board has considered the need for progressive refreshing of the Board in formulating this view. 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 retire no later than at the third annual general meeting of the Company after the general meeting at which he/she was appointed or last reappointed in accordance with the Company's Articles of Association and the principles of the Code. The Board does not believe it is necessary for Non-executive Directors of the Company who have served more than nine years to offer themselves for re-election annually. All Directors undergo a performance evaluation before being proposed for re-election to ensure their performance continues to be effective, that where appropriate they maintain their independence and that they are demonstrating continued commitment to the role.

Richard J Steele, the Non-executive Chairman, is responsible for the running of the Board and Lawrence F Bryan, the Chief Executive, has executive responsibility for running the Group's business and implementing Group strategy. Following the appointment of Richard J Steele as Non-executive Chairman on 30 April 2007, the Board has not appointed a Senior Non-executive Director. The Board believes that, given its size, there is sufficient opportunity for shareholders to raise any concerns they may have with the Non-executive Chairman, Chief Executive, Group Finance Director or the other two Non-executive Directors. The Board meets at least six times each year and has a formal schedule of matters reserved to it. It is responsible for overall Group strategy, approval of major capital expenditure projects, approval of the annual and interim results, annual budgets, dividend policy, and Board structure. It monitors the exposure to key business risks and reviews the strategic direction of all trading subsidiaries, their annual budgets, their performance in relation to those budgets and their capital expenditure.

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

## Corporate Governance Statement continued

The following table shows the attendance of the Directors at meetings of the Board and its principal committees during 2010

	Board	Audit Committee	Remuneration Committee	Nomination Committee
<b>Total meetings held</b>	<b>6</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>Meetings attended</b>				
R J Steele (Non-executive Chairman)	6	3	2	1
L F Bryan (Chief Executive)	6	3*	-	1
M Haynes (Group Sales and Marketing Director)	6	3*	-	1*
Lady Judge (Non-executive)	4	2	2	1
J Kong (Non-executive)	6	3	2	1
B W J Phillips (Group Finance Director)	6	3*	-	1*

### Notes

During the year additional Board and Remuneration Committee meetings were held and attended by a duly authorised committee of members of the Board principally to discuss share option matters

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

### Nomination Committee

The Nomination Committee is chaired by Richard J Steele and comprises all the Non-executive Directors and the Chief Executive. It leads the process and 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 require that each Director shall submit himself/herself for re-election every three years. No Directors are exempt from retirement by rotation.

### Remuneration Committee

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

# Corporate Governance Statement continued

## Audit Committee

The Audit Committee is chaired by Richard J Steele and comprises all the Non-executive Directors. The Board considers it appropriate that Richard J Steele with his experience and expertise in this area chairs this committee. The Audit Committee meets at least twice each year. It considers any matter relating to the financial affairs of the Group and to the Group's external audit that it determines to be desirable. In particular, the Committee oversees the monitoring of the adequacy of the Group's internal controls, accounting policies and financial reporting and provides a forum through which the Group's external auditors report to the Non-executive Directors.

The Audit Committee reviews arrangements by which employees of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, so seeking to ensure that appropriate arrangements are in place for the proportionate and independent investigation of such concerns and for appropriate follow-up action.

## 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 report and accounts. That process is regularly reviewed by the Board and accords with the internal control guidance published in October 2005 (the Turnbull Guidance).

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

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

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

The Group's significant risks, together with the relevant control and monitoring procedures, are subject to regular review to enable the Board to assess the effectiveness of the system of internal control. The adequacy of internal controls with regard to the risks identified are reviewed at every Board meeting. The Board has also specifically reviewed the effectiveness of the Group's internal financial controls. During the course of its reviews, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

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

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

## Corporate Governance Statement continued

Fees paid to the auditors for non-audit services are disclosed in note 9 on page 50

### **Conflicts of Interest**

In line with the requirements of the Companies Act 2006, the Directors have put in place a policy and process for notifying and recording the nature and extent of their interests, together with those of connected persons, in organisations and companies outside the Group. Each Director must formally notify the Company if there is the potential for these interests to conflict with their duties as a Director of the Company. All such notifications are regularly reviewed by the Board.

### **Relations with shareholders**

The Group encourages two way communications 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 ("AGM") at which the chairmen of all Committees will be available for questions.

The Board recognises the AGM as an important opportunity to meet private shareholders. At its AGM, which is chaired by the Chairman, the Company complies with the provisions of the Code relating to the notice period required, disclosure of proxy votes, the separation of resolutions and the attendance of committee chairmen.

### **Financial Reporting**

The Board seeks to present a balanced and understandable assessment of the Company's position and prospects. Details are given in the Business Review on pages 8 to 11.

# Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

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

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

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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# Independent Auditors' Report

## **Independent auditors' report to the members of Portmeirion Group PLC**

We have audited the financial statements of Portmeirion Group PLC for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Reconciliation of Movements in Shareholders' Equity and the related notes. The financial reporting framework that has been applied in the preparation of the Group's financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## **Respective responsibilities of Directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 31, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. This report is made solely to the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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.

## **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## **Opinion on the financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Independent Auditors' Report continued

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us or
- the Company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

### **Paul Lucas (Senior Statutory Auditor)**

for and on behalf of Mazars LLP  
Chartered Accountants and Statutory Auditors  
45 Church Street  
Birmingham  
22 March 2011



## Consolidated Income Statement

for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
<b>Revenue</b>	4, 5	<b>51,243</b>	43,165
Operating costs	6	<b>(45,728)</b>	(38,573)
<b>Operating profit before exceptional items</b>		<b>5,515</b>	4,592
Operating exceptional items	7	<b>(199)</b>	(207)
<b>Operating profit after operating exceptional items</b>		<b>5,316</b>	4,385
Investment revenue	4, 10	<b>8</b>	7
Finance costs	11	<b>(182)</b>	(681)
Share of profit of associated undertakings		<b>107</b>	7
<b>Profit before tax</b>		<b>5,249</b>	3,718
Tax	12	<b>(1,774)</b>	(1,265)
<b>Profit for the year attributable to equity holders</b>	25	<b>3,475</b>	2,453
Earnings per share	14	<b>34.91p</b>	24 73p
Diluted earnings per share	14	<b>34.39p</b>	24 66p
Dividends paid and proposed per share	13	<b>17.40p</b>	15 80p

All the above figures relate to continuing operations

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	Notes	<b>2010</b> <b>£'000</b>	2009 £'000
Profit for the year		<b>3,475</b>	2,453
Exchange differences on translation of foreign operations	26	<b>253</b>	(773)
Actuarial (loss)/gain on defined benefit pension scheme	30	<b>(1,606)</b>	254
Deferred tax on other comprehensive income	23	<b>542</b>	(71)
Other comprehensive income for the year		<b>(811)</b>	(590)
<b>Total comprehensive income for the year attributable to equity holders</b>		<b>2,664</b>	1,863

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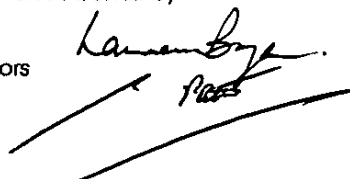
# Consolidated Balance Sheet

31 December 2010

	Notes	2010 £'000	2009 £'000
<b>Non-current assets</b>			
Intangible assets	15	2,038	2,395
Property, plant and equipment	16	6,159	5,611
Interests in associates	17	1,472	1,327
Deferred tax asset	23	710	289
<b>Total non-current assets</b>		<b>10,379</b>	<b>9,622</b>
<b>Current assets</b>			
Inventories	18	9,655	8,784
Trade and other receivables	19	7,702	7,035
Cash and cash equivalents	20	6,249	5,439
<b>Total current assets</b>		<b>23,606</b>	<b>21,258</b>
<b>Total assets</b>		<b>33,985</b>	<b>30,880</b>
<b>Current liabilities</b>			
Trade and other payables	22	(7,204)	(5,128)
Current income tax liabilities		(300)	(508)
Borrowings	21	-	(284)
<b>Total current liabilities</b>		<b>(7,504)</b>	<b>(5,920)</b>
<b>Non-current liabilities</b>			
Pension scheme deficit	30	(4,302)	(3,637)
Borrowings	21	-	(763)
Grant received		(57)	(74)
<b>Total non-current liabilities</b>		<b>(4,359)</b>	<b>(4,474)</b>
<b>Total liabilities</b>		<b>(11,863)</b>	<b>(10,394)</b>
<b>Net assets</b>		<b>22,122</b>	<b>20,486</b>
<b>Equity</b>			
Called up share capital	24	528	528
Share premium account	25	4,951	4,820
Treasury shares	25	(1,047)	(1,202)
Share-based payment reserve	25	267	159
Translation reserve	26	1,040	630
Retained earnings	25	16,383	15,551
<b>Total equity</b>		<b>22,122</b>	<b>20,486</b>

These financial statements were approved by the Board of Directors and authorised for issue on 22 March 2011. They were signed on its behalf by:

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



# Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

	Share capital £'000	Share premium account £'000	Treasury shares £'000	Share- based payment reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2009	528	4,820	(1,202)	146	1,403	14,353	20,048
Profit for the year	-	-	-	-	-	2,453	2,453
Other comprehensive income for the year	-	-	-	-	(773)	183	(590)
<b>Total comprehensive income for the year</b>	-	-	-	-	<b>(773)</b>	<b>2,636</b>	<b>1,863</b>
Dividends paid	-	-	-	-	-	(1,458)	(1,458)
Increase in share-based payment reserve	-	-	-	13	-	-	13
Deferred tax on share- based payment	-	-	-	-	-	20	20
<b>At 1 January 2010</b>	<b>528</b>	<b>4,820</b>	<b>(1,202)</b>	<b>159</b>	<b>630</b>	<b>15,551</b>	<b>20,486</b>
Profit for the year	-	-	-	-	-	3,475	3,475
Other comprehensive income for the year	-	-	-	-	410	(1,221)	(811)
<b>Total comprehensive income for the year</b>	-	-	-	-	<b>410</b>	<b>2,254</b>	<b>2,664</b>
Dividends paid	-	-	-	-	-	(1,607)	(1,607)
Increase in share- based payment reserve	-	-	-	108	-	-	108
Shares issued under employee share schemes	-	131	155	-	-	-	286
Deferred tax on share- based payment	-	-	-	-	-	185	185
<b>At 31 December 2010</b>	<b>528</b>	<b>4,951</b>	<b>(1,047)</b>	<b>267</b>	<b>1,040</b>	<b>16,383</b>	<b>22,122</b>

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## Consolidated Statement of Cash Flows

for the year ended 31 December 2010

	2010 £'000	2009 £'000
<b>Operating profit after operating exceptional items</b>	<b>5,316</b>	4,385
<i>Adjustments for</i>		
Depreciation of property, plant and equipment	772	666
Amortisation of intangible assets	357	293
Contributions to defined benefit pension scheme	(951)	(600)
Charge for share-based payments	108	13
Exchange loss	(19)	(218)
Loss/(profit) on sale of tangible fixed assets	77	(5)
<b>Operating cash flows before movements in working capital</b>	<b>5,660</b>	4,534
(Increase)/decrease in inventories	(795)	1,172
Increase in receivables	(570)	(1,133)
Increase in payables	2,032	921
<b>Cash generated from operations</b>	<b>6,327</b>	5,494
Interest paid	(160)	(412)
Income taxes paid	(1,676)	(379)
<b>Net cash from operating activities</b>	<b>4,491</b>	4,703
<b>Investing activities</b>		
Interest received	8	20
Proceeds on disposal of property, plant and equipment	86	31
Purchase of property, plant and equipment	(1,474)	(588)
Purchase of intangible assets	-	(2,173)
<b>Net cash outflow from investing activities</b>	<b>(1,380)</b>	(2,710)
<b>Financing activities</b>		
Equity dividends paid	(1,607)	(1,458)
New bank loans raised	-	1,178
Repayments of bank loans	(1,047)	(131)
Shares issued under employee share schemes	286	-
<b>Net cash outflow from financing activities</b>	<b>(2,368)</b>	(411)
<b>Net increase in cash and cash equivalents</b>	<b>743</b>	1,582
Cash and cash equivalents at beginning of year	5,439	3,938
Effect of foreign exchange rate changes	67	(81)
<b>Cash and cash equivalents at end of year</b>	<b>6,249</b>	5,439

# Notes to the Consolidated Financial Statements

## 1 Basis of preparation

Portmeirion Group PLC is a Company incorporated in England and Wales. The address of the registered office is given on page 78. The nature of the Group's operations and its principal activities are set out in the Report of the Directors on pages 14 to 19.

These accounts have been prepared in accordance with accounting standards adopted for use in the European Union (International Financial Reporting Standards (IFRSs)).

The going concern basis has been considered in the Report of the Directors on page 15.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.5.

In the current year, the following new and revised Standards and Interpretations have been adopted but have not made any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements:

IFRS 3 (2008)	<i>Business Combinations</i>
IAS 27 (2008)	<i>Consolidated and Separate Financial Statements</i>
IAS 28 (2008)	<i>Investments in Associates</i>
IFRS 2 (amended)	<i>Share-based Payment and Group Cash-settled Share-based Payment Transactions</i>
IAS 17 (amended)	<i>Leases</i>
IAS 39 (amended)	<i>Financial Instruments: Recognition and Measurement</i>
IFRIC 17	<i>Distributions of Non-cash Assets to Owners</i>

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	<i>Financial Instruments</i>
IAS 24 (amended)	<i>Related Party Disclosures</i>
IAS 32 (amended)	<i>Classification of Rights Issues</i>
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
IFRIC 14 (amended)	<i>Prepayments of a Minimum Funding Requirement</i>
Improvements to IFRSs (May 2010)	

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

## 2 Significant accounting policies

The accounting policies which follow set out those policies which were applied in preparing the financial statements for the year ended 31 December 2010.

The financial statements have been prepared on the historical cost basis.

# Notes to the Consolidated Financial Statements

continued

## 2. Significant accounting policies continued

### 2.1 Basis of consolidation

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

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

All accounts for subsidiaries and associated companies have been prepared for the year ended 31 December 2010 except for the accounts of Portmeirion Finance Limited which, for cash flow reasons associated with the date of payment of tax, have been prepared for the year ended 7 January 2011 and the accounts of Portmeirion Canada Inc. which have a year end of 30 June 2010. The Group accounts include interim financial information to 31 December 2010 for Portmeirion Finance Limited and Portmeirion Canada Inc.

### 2.2 Investment in associated undertakings ("associates")

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

### 2.3 Revenue recognition

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

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

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

Royalty revenue is recognised on an accruals basis in accordance with the substance of the relevant agreement.

Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement.

# Notes to the Consolidated Financial Statements

continued

## 2. Significant accounting policies continued

### 2.4 Operating leases

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

### 2.5 Foreign currencies

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

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

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

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

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

### 2.6 Operating profit

Operating profit is stated both before and after exceptional items but before investment revenue, finance costs and share of profit of associated undertakings.

### 2.7 Group pension schemes

Payments to defined contribution retirement schemes are charged as an expense as they fall due.

For defined benefit schemes, the cost of providing benefits is determined using the defined accrued benefit method, with actuarial valuations being carried out at least triennially and updated at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in other comprehensive income.

Past service costs are recognised immediately to the extent that the benefits are already vested, and otherwise are amortised on a straight-line basis over the average period until the benefits become vested. The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets.

# Notes to the Consolidated Financial Statements

continued

## 2. Significant accounting policies continued

### 2.8 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax

#### Current tax

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

#### Deferred tax

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

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

### 2.9 Property, plant and equipment

Freehold land is not depreciated.

Property, plant and equipment are held at cost less accumulated depreciation and any recognised impairment losses.

# Notes to the Consolidated Financial Statements

continued

## 2. Significant accounting policies continued

### 2.9 Property, plant and equipment continued

Depreciation is recognised so as to write off the cost of assets (other than land) less their residual values over their useful lives, using the straight-line or the reducing balance method, on the following bases

Freehold buildings	— 2% per annum
Leasehold improvements	— over the life of the lease
Plant and vehicles	— 6% to 33% per annum

### 2.10 Intangible assets

Purchases of intellectual property are included at cost and written off in equal annual instalments over their estimated useful economic life of 5–10 years. Provision is made for any impairment.

Computer software is held at cost less accumulated amortisation less any recognised impairment losses. Amortisation is charged so as to write off the cost of asset less their residual value over their useful lives, using the straight-line method. The estimated useful life of computer software is between three and ten years.

### 2.11 Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

### 2.12 Inventories

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

# Notes to the Consolidated Financial Statements

continued

## 2 Significant accounting policies continued

### 2.13 Research and development

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

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

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

### 2.14 Purchase of own shares

Investment in own shares has been classified to other reserves — treasury shares. These shares are valued at the weighted average cost of purchase. Treasury shares are a deduction from equity.

### 2.15 Financial instruments

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

#### *Derivative financial instruments*

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

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

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

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

#### *Receivables*

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are categorised as loans and receivables. These are measured at amortised cost using the effective interest method, less any impairment.

#### *Cash and cash equivalents*

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

# Notes to the Consolidated Financial Statements

continued

## 2. Significant accounting policies continued

### 2.15 Financial instruments continued

#### *Financial liabilities and equity*

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

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

### 2.16 Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 32.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

### 2.17 Grant income

Grant income relating to a commitment to employ individuals is treated as deferred income and released to the income statement once the contractual period has elapsed.

# Notes to the Consolidated Financial Statements

continued

## 3. Critical accounting judgements and key sources of estimation uncertainty

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

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

### Critical judgements in applying the Group's accounting policies

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

#### *Impairment of inventory*

Provision is made for the impairment of slow-moving and obsolete inventory based on historical and forecast sales and estimates of net realisable value. The carrying value of inventory at the year end was £9,655,000 (2009 - £8,784,000).

#### *Defined benefit pension scheme*

The valuation of the Group's defined benefit pension scheme assets and liabilities under IAS 19 *Employee Benefits* requires assumptions to be made regarding returns on assets, inflation, discount rates, salary, mortality and pension increases. The carrying value of the scheme liability at the year end was £4,302,000 (2009 - £3,637,000).

## 4. Revenue

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

	2010 £'000	2009 £'000
<b>Continuing operations</b>		
Sale of goods	51,009	43,002
Royalties	234	163
	<b>51,243</b>	43,165
Investment income	8	7
	<b>51,251</b>	43,172

# Notes to the Consolidated Financial Statements

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## 5. Segmental analysis

IFRS 8 requires operating segments to be identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Chief Executive to allocate resources to the segments and to assess their performance. Based upon the nature and extent of these internal reports, the Directors are of the opinion that there are two reportable segments under IFRS 8, namely the UK and US operations. 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.

	<b>Total sales</b>	<b>2010 Inter-segment sales</b>	<b>Sales to third parties</b>	<b>Total sales</b>	<b>2009 Inter-segment sales</b>	<b>Sales to third parties</b>
<i>Revenue by origin</i>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
United Kingdom	<b>34,803</b>	<b>(4,558)</b>	<b>30,245</b>	30,513	(4,438)	26,075
United States	<b>20,998</b>	<b>-</b>	<b>20,998</b>	17,090	-	17,090
	<b>55,801</b>	<b>(4,558)</b>	<b>51,243</b>	47,603	(4,438)	43,165

Included in revenues arising from the United Kingdom are revenues of £9,816,000 (2009 - £7,205,000) which arose from sales to the Group's largest customer in South Korea.

	<b>Before exceptional items</b>	<b>2010 Operating exceptional items</b>	<b>Total</b>	<b>Before exceptional items</b>	<b>2009 Operating exceptional items</b>	<b>Total</b>
<i>Operating profit/(loss) by origin</i>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
United Kingdom	<b>3,002</b>	<b>(199)</b>	<b>2,803</b>	2,087	(75)	2,012
United States	<b>2,513</b>	<b>-</b>	<b>2,513</b>	2,505	(132)	2,373
Operating profit/(loss)	<b>5,515</b>	<b>(199)</b>	<b>5,316</b>	4,592	(207)	4,385

Unallocated items

Share of profit of associated undertakings

**107** 7

Investment revenue

**8** 7

Finance costs

**(182)** (681)

Profit before tax

**5,249** 3,718

Tax

**(1,774)** (1,265)

Profit after tax

**3,475** 2,453

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## 5 Segmental analysis continued

	2010			2009		
	United Kingdom	United States	Consolidated	United Kingdom	United States	Consolidated
<i>Other information</i>	£'000	£'000	£'000	£'000	£'000	£'000
Capital additions	807	667	1,474	2,416	345	2,761
Depreciation and amortisation	958	171	1,129	878	81	959
<i>Balance sheet</i>						
<b>Assets</b>						
Segment assets	24,974	7,539	32,513	20,475	9,078	29,553
Interests in associates			1,472			1,327
Consolidated total assets			33,985			30,880
<b>Liabilities</b>						
Segment liabilities	9,579	2,284	11,863	9,420	974	10,394

There are no unallocated corporate liabilities in 2010 and 2009

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

	2010	2009
<i>Revenue</i>	£'000	£'000
United Kingdom	12,615	13,102
United States	21,210	17,252
South Korea	9,816	7,205
Rest of the World	7,602	5,606
	51,243	43,165

	2010	2009
<i>Reconciliation of earnings before exceptional items, interest, tax, depreciation and amortisation</i>	£'000	£'000
Operating profit before exceptional items	5,515	4,592
Add back		
Depreciation	772	666
Amortisation	357	293
Earnings before exceptional items, interest, tax, depreciation and amortisation	6,644	5,551

	2010	2009
<i>Profit before tax reconciliation</i>	£'000	£'000
Pre-tax profit before exceptional items	5,448	3,925
Operating exceptional items (note 7)	(199)	(207)
Pre-tax profit after exceptional items	5,249	3,718

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## 6. Operating costs

	2010			2009		
	Before exceptional items	Operating exceptional items (note 7)	Total	Before exceptional items	Operating exceptional items (note 7)	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost of inventories recognised as an expense	19,669	-	19,669	16,467	-	16,467
Movement on inventory impairment provision	87	-	87	(53)	-	(53)
Other external charges	9,574	199	9,773	8,235	132	8,367
Staff costs (note 8)	14,938	-	14,938	12,631	75	12,706
Depreciation of property, plant and equipment	772	-	772	666	-	666
Amortisation of intangible assets	357	-	357	293	-	293
Impairment of trade receivables	51	-	51	39	-	39
Cost of research and development	298	-	298	198	-	198
Net foreign exchange losses	1	-	1	116	-	116
Government grants	(19)	-	(19)	(19)	-	(19)
	45,728	199	45,927	38,573	207	38,780

## 7. Exceptional items

The Directors define reorganisation costs as exceptional. Specifically included under such exceptional items are costs incurred in the early redemption of a bank facility agreement. In the comparative year exceptional items comprised redundancy costs and additional costs incurred due to the relocation of acquired inventory.

The analysis of exceptional items is as follows:

	2010 £'000	2009 £'000
<b>Operating exceptional items</b>		
Facility redemption costs	199	-
Cost associated with relocation of inventory	-	132
Redundancy costs	-	75
	199	207

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## 8 Staff numbers and costs

	2010 Number	2009 Number
<i>The average number of persons employed during the year, including Directors</i>		
Operatives	318	270
Salaried employees	214	217
	<b>532</b>	<b>487</b>
	<b>£'000</b>	<b>£'000</b>
<i>Staff costs</i>		
Wages and salaries	12,689	10,784
Social security costs	1,092	895
Defined contribution and money purchase pension scheme costs	742	684
Non-monetary benefits	415	343
	<b>14,938</b>	<b>12,706</b>

The Company had no employees throughout 2010 or 2009

Details of individual Directors' remuneration, pension contributions and pension entitlements required by the Companies Act 2006 are shown in the Directors' Remuneration Report on pages 20 to 26, together with details of Directors' current share options

## 9. Auditors' remuneration

	2010 £'000	2009 £'000
<b>Fees payable to the Group's auditors for the audit of the Group's annual accounts</b>	<b>43</b>	<b>43</b>
Total audit fees	<b>43</b>	<b>43</b>
<b>Fees payable to the Group's auditors and their associates for other services to the Group</b>		
Other services - interim review	6	6
Tax compliance services	5	8
Other tax services	28	-
Total non-audit fees	<b>39</b>	<b>14</b>
<b>Fees payable to the Group's auditors and their associates in respect of associated pension schemes</b>		
Audit of the Portmeirion Potteries Limited Retirement Benefits Scheme	4	4
	<b>4</b>	<b>4</b>

The audit fee for the Company was £1,500 (2009 - £1,500)

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

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**10. Investment revenue**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Bank deposits	<b>2</b>	5
Gains on financial derivatives	-	2
Other interest receivable	<b>6</b>	-
	<b>8</b>	7

**11. Finance costs**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Interest paid	<b>172</b>	412
Defined benefit pension scheme - other finance costs	<b>10</b>	269
	<b>182</b>	681

**12 Taxation on profit on ordinary activities**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
United Kingdom corporation tax at 28% (2009 - 28%)	<b>617</b>	621
Adjustment of corporation tax in respect of prior years	<b>(4)</b>	(14)
Overseas taxation	<b>855</b>	871
Double tax relief	-	(340)
Current taxation	<b>1,468</b>	1,138
Deferred taxation origination and reversal of timing differences	<b>65</b>	34
Pension scheme	<b>241</b>	93
Deferred taxation	<b>306</b>	127
	<b>1,774</b>	1,265

UK Corporation tax is calculated at 28% (2009 - 28%) of the estimated assessable profit for the year  
Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions

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## 12 Taxation on profit on ordinary activities continued

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 28% (2009 – 28%)

The actual tax charge for the current and the previous year differs from the standard rate for the reasons set out in the following reconciliation

	2010 £'000	2009 £'000
Profit on ordinary activities before taxation	5,249	3,718
Tax on profit on ordinary activities at standard rate of 28% (2009 – 28%)	1,470	1,041
<i>Factors affecting charge for the year</i>		
Expenses not deductible for tax purposes	198	341
Small companies tax relief	(5)	(1)
Foreign tax charged at higher rates than UK standard rate	155	232
Adjustments to tax charge in respect of prior years	(4)	(14)
Difference relating to associates tax charge	(40)	6
Double tax relief	—	(340)
Total tax on profit on ordinary activities	1,774	1,265

## 13 Dividends paid

	2010 £'000	2009 £'000
Final dividend of 12 25p per share paid in respect of the year ended 31 December 2009 (2009 – final dividend of 11 15p per share paid in respect of the year ended 31 December 2008)	1,219	1,106
Interim dividend of 3 90p per share paid in respect of the year ended 31 December 2010 (2009 – interim dividend of 3 55p per share in respect of the year ended 31 December 2009)	388	352
Total dividends paid in the year	1,607	1,458

The Directors recommend that a final dividend for 2010 of 13 50p (2009 – 12 25p) per ordinary share be paid, making a total for the year of 17 40p (2009 – 15 80p) per share. The final dividend will be paid, subject to shareholders' approval, on 25 May 2011, to shareholders on the register at the close of business on 26 April 2011. This dividend has not been included as a liability in these financial statements.

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## 14. Earnings per share

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

	Earnings £	2010 Weighted average number of shares	Earnings per share (pence)	Earnings £	2009 Weighted average number of shares	Earnings per share (pence)
Basic earnings per share	3,475,000	9,955,349	34.91	2,453,000	9,919,956	24.73
Effect of dilutive securities employee share options	-	149,846	-	-	29,132	-
Diluted earnings per share	3,475,000	10,105,195	34.39	2,453,000	9,949,088	24.66

## 15. Intangible assets

	Computer software £'000	Intellectual property £'000	Total £'000
<i>Cost</i>			
At 1 January 2009	439	524	963
Additions	4	2,169	2,173
At 1 January 2010	443	2,693	3,136
Disposals	(64)	-	(64)
<b>At 31 December 2010</b>	<b>379</b>	<b>2,693</b>	<b>3,072</b>
<i>Amortisation</i>			
At 1 January 2009	216	232	448
Charge for the year	44	249	293
At 1 January 2010	260	481	741
Charge for the year	36	321	357
On disposals	(64)	-	(64)
<b>At 31 December 2010</b>	<b>232</b>	<b>802</b>	<b>1,034</b>
<i>Net book value</i>			
<b>At 31 December 2010</b>	<b>147</b>	<b>1,891</b>	<b>2,038</b>
At 31 December 2009	183	2,212	2,395

Included within intellectual property are the rights to certain intellectual property and the trade names of Spode and Royal Worcester, purchased in April 2009. At the year end this had a carrying value of £1,808,000 (2009 - £2,024,000). The remaining amortisation period is 8 years and 4 months.

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## 16 Property, plant and equipment

	Freehold £'000	Land and buildings Leasehold improve- ments £'000	Plant and vehicles £'000	Total £'000
<i>Cost</i>				
At 1 January 2009	3,857	930	14,357	19,144
Additions	-	97	491	588
Disposals	-	-	(53)	(53)
Exchange rate adjustments	-	(22)	(81)	(103)
At 1 January 2010	3,857	1,005	14,714	19,576
Additions	-	464	1,010	1,474
Disposals	-	(212)	(3,378)	(3,590)
Exchange rate adjustments	-	(5)	21	16
<b>At 31 December 2010</b>	<b>3,857</b>	<b>1,252</b>	<b>12,367</b>	<b>17,476</b>
<i>Depreciation</i>				
At 1 January 2009	1,394	556	11,432	13,382
Charge for the year	78	44	544	666
On disposals	-	-	(27)	(27)
Exchange rate adjustments	-	(20)	(36)	(56)
At 1 January 2010	1,472	580	11,913	13,965
Charge for the year	70	74	628	772
On disposals	-	(170)	(3,257)	(3,427)
Exchange rate adjustments	-	(1)	8	7
<b>At 31 December 2010</b>	<b>1,542</b>	<b>483</b>	<b>9,292</b>	<b>11,317</b>
<i>Net book value</i>				
<b>At 31 December 2010</b>	<b>2,315</b>	<b>769</b>	<b>3,075</b>	<b>6,159</b>
At 31 December 2009	2,385	425	2,801	5,611

At 31 December 2010, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £186,000 (2009 - £nil)

Following renovations in the year to the UK head office and the US showroom, along with a detailed review of assets no longer in use by the business, assets with a zero net book value but with cost and accumulated depreciation of £3,346,000 were treated as disposals during the year

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## 17 Interests in associates

	2010 £'000	2009 £'000
Associated undertakings		
Furlong Mills Limited		
2,080 ordinary shares of £1 each representing 27.58% of the issued share capital		
Share of net assets	897	1,196
Discount on acquisition	(13)	(13)
Impairment of investment in Furlong Mills Limited	(309)	(693)
	575	490
Portmeirion Canada Inc		
100 common shares representing 50% of the issued share capital		
Share of net assets	897	837
	1,472	1,327
	2010 £'000	2009 £'000
Aggregated amounts relating to associates		
Total assets	7,090	7,426
Total liabilities	(1,585)	(1,217)
Revenues	10,068	8,880
Profit/(loss) before tax	585	(141)

A list of the significant investments in subsidiaries and associates, including the name, country of incorporation and proportion of ownership interest is given in note c to the Company's separate financial statements on pages 74 and 75

Portmeirion Canada Inc. has been accounted for as an associate as it is independently managed from Canada, and with a 50% share of ownership the Directors consider that the Group asserts significant influence but not joint control

In the current year there has been an impairment of fixed assets in the accounts of Furlong Mills Limited. This has led to a reversal of the previously incurred impairment charge in the Group accounts of £384,000 (2009 - £nil) which anticipated the charge in the entity accounts of the associated undertaking

## 18 Inventories

	2010 £'000	2009 £'000
Raw materials and other consumables	1,075	1,147
Work in progress	604	498
Finished goods	7,976	7,139
	9,655	8,784

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## 19. Trade and other receivables

	2010 £'000	2009 £'000
Amount receivable for the sale of goods	6,455	6,252
Allowance for doubtful debts	(237)	(283)
Trade receivables	6,218	5,969
Amounts owed by associated undertakings	373	381
Other receivables	13	14
Prepayments and accrued income	1,098	671
	<b>7,702</b>	<b>7,035</b>

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

Included in the Group's trade receivable balance are debtors with a carrying amount of £2,009,000 (2009 - £1,554,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 53 days (2009 - 55 days).

	2010 £'000	2009 £'000
Ageing of past due but not impaired receivables		
30-60 days	1,552	939
60-90 days	273	558
90+ days	184	57
Total	<b>2,009</b>	<b>1,554</b>

	2010 £'000	2009 £'000
Movement in the allowance for doubtful debts		
Balance at the beginning of the year	283	244
Impairment losses recognised	51	39
Amounts written off as uncollectable	(97)	-
Balance at the end of the year	<b>237</b>	<b>283</b>

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

	2010 £'000	2009 £'000
Ageing of individually impaired trade receivables		
120+ days	142	192

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## 19 Trade and other receivables continued

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of £9,000 (2009 – £52,000) which have been placed into liquidation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances.

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

## 20. Cash and cash equivalents

	2010 £'000	2009 £'000
Cash and cash equivalents	6,249	5,439

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

## 21 Borrowings

	2010 £'000	2009 £'000
Secured borrowing at amortised cost		
Bank loans	-	1,047
Amount due for settlement within 12 months	-	284
Amount due for settlement after 12 months	-	763

The Group renegotiated its borrowing facility during the year. All existing borrowings were repaid on 16 June 2010.

The Group now has two facilities:

- A £2,000,000 overdraft facility available until 31 May 2011. Interest is payable at 1.75% on the net pooled fund balance, plus bank base rate on net sterling borrowings.
- A £2,000,000 revolving credit facility available until 31 May 2013. Interest is payable at 1.9% above three month LIBOR.

These facilities are secured by an unlimited debenture from the Group and a first charge over Group property.

Neither of these facilities were being utilised at 31 December 2010.

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### 22. Other financial liabilities

	2010 £'000	2009 £'000
Trade and other payables		
Trade creditors and accruals	6,124	4,392
Amounts owed to associated undertakings	100	24
Other taxation and social security	439	462
Other creditors	541	250
	<b>7,204</b>	<b>5,128</b>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases, ongoing costs and indirect taxes. The average credit period taken for trade purchases is 35 days (2009 – 34 days). For most suppliers no interest is charged on the trade payables from the date of invoice to the end of the following month. Thereafter, interest may be charged on the outstanding balances at various interest rates. The Group's policy is to pay all payables within the credit timeframe.

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

### 23. Deferred tax

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

	Accelerated tax depreciation £'000	Retirement benefit obligations £'000	Share- based payment £'000	Capital gain held over £'000	Other temporary differences £'000	Total £'000
At 1 January 2009	462	(1,182)	–	387	(134)	(467)
Charge/(credit) to income	64	93	(6)	–	(24)	127
Charge/(credit) to equity	–	71	(20)	–	–	51
At 1 January 2010	526	(1,018)	(26)	387	(158)	(289)
Charge/(credit) to income	158	241	(55)	(14)	(24)	306
Credit to equity	–	–	(185)	–	–	(185)
Credit to other comprehensive income	–	(385)	–	–	(157)	(542)
<b>At 31 December 2010</b>	<b>684</b>	<b>(1,162)</b>	<b>(266)</b>	<b>373</b>	<b>(339)</b>	<b>(710)</b>

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

	2010 £'000	2009 £'000
Deferred tax liabilities	1,057	913
Deferred tax assets	(1,767)	(1,202)
	<b>(710)</b>	<b>(289)</b>

At the balance sheet date, the Group had no unused tax trading or capital losses (2009 – £nil) available for offset against future profits.

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

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## 24 Share capital

	2010		2009	
	Number '000	£'000	Number '000	£'000
Authorised share capital ordinary shares of 5p each	<b>15,000</b>	<b>750</b>	15,000	750
Allotted, called up and fully paid share capital ordinary shares of 5p each	<b>10,563</b>	<b>528</b>	10,563	528

The market price of the Company's shares at 31 December 2010 was 530 0p per share. During the year the price ranged between 305 0p and 550 0p per share.

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

Options granted to Directors and employees (note 32) to acquire ordinary shares of 5p in the Company and still outstanding at 31 December 2010 were as follows:

	Number of shares	Exercise price per share (p)	Dates on which exercisable	
			Earliest	Latest
The Portmeirion 2002 Share Option Scheme	147,144	345.0	01 04 2010	03 04 2011
The Portmeirion 2002 Share Option Scheme	104,000	260.0	16 04 2011	14 04 2012
The Portmeirion 2002 Share Option Scheme	199,000	197.5	29 05 2012	27 05 2019
The Portmeirion 2002 Share Option Scheme	195,000	374.5	30 03 2013	28 03 2020
The Portmeirion Group 2010 Deferred Incentive Share Option Plan	28,352	-	28 05 2013	25 08 2013

Options held by the Directors are shown in the Directors' Remuneration Report on pages 25 and 26.

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## 25. Share premium account and reserves

	Share premium account £'000	Treasury shares £'000	Share-based payment reserve £'000	Retained earnings £'000
At 1 January 2009	4,820	(1,202)	146	14,353
Profit for the financial year	-	-	-	2,453
Dividends paid	-	-	-	(1,458)
Increase in share-based payment reserve	-	-	13	-
Movement in pension scheme liability net of related deferred tax	-	-	-	183
Deferred tax on share-based payment	-	-	-	20
At 1 January 2010	4,820	(1,202)	159	15,551
Profit for the financial year	-	-	-	3,475
Dividends paid	-	-	-	(1,607)
Increase in share-based payment reserve	-	-	108	-
Movement in pension scheme liability net of related deferred tax	-	-	-	(1,221)
Shares issued under employee share schemes	131	155	-	-
Deferred tax on share-based payment	-	-	-	185
<b>At 31 December 2010</b>	<b>4,951</b>	<b>(1,047)</b>	<b>267</b>	<b>16,383</b>

The cumulative amount of goodwill written off at 31 December 2010 was £515,000 (2009 – £515,000)

The retained earnings of £16,383,000 (2009 – £15,551,000) includes the Group's share of associated undertakings' post-acquisition reserves of £2,137,000 (2009 – £2,030,000)

The Group currently holds 560,218 (2009 – 643,074) ordinary shares of 5p each in treasury

## 26 Translation reserve

	Translation reserve £'000
At 1 January 2009	1,403
Exchange differences on translation of overseas operations	(773)
At 1 January 2010	630
Exchange differences on translation of overseas operations	253
Deferred tax relating to gains arising on translation of overseas operations	157
<b>At 31 December 2010</b>	<b>1,040</b>

# Notes to the Consolidated Financial Statements

continued

## 27. Commitments

### Operating lease arrangements

The Group as lessee

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Minimum lease payments under operating leases recognised as an expense in the year	<b>1,390</b>	1,166

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

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Within one year	<b>1,501</b>	1,268
In the second to fifth years inclusive	<b>5,206</b>	3,836
After five years	<b>3,016</b>	2,140
	<b>9,723</b>	7,244

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease receipts

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Within one year	<b>117</b>	117
In the second to fifth years inclusive	<b>439</b>	468
After five years	<b>-</b>	88
	<b>556</b>	673

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

## 28. Contingent liabilities

The Group has given a guarantee of up to \$900,000 to the landlord of the premises of Portmeirion Group USA Inc located in Connecticut, USA.

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# Notes to the Consolidated Financial Statements

continued

## 29. Related party transactions

Transactions between the Group and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below. Transactions between the Company and its subsidiaries and associates are disclosed in note g of the Company's financial statements on page 76.

The transactions during the year with associated undertakings were

	<b>Purchases</b>	Purchases	<b>Sales</b>	Sales
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Portmeirion Canada Inc	-	-	<b>2,385</b>	1,871
Furlong Mills Limited	<b>551</b>	456	-	-

The outstanding balances at 31 December 2010, with associated undertakings were

	<b>Debtor</b>	Debtor	<b>Creditor</b>	Creditor
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Portmeirion Canada Inc	<b>373</b>	381	-	-
Furlong Mills Limited	-	-	<b>100</b>	24

Sales to Portmeirion Canada Inc are made at prices agreed between Portmeirion Group UK Limited and Portmeirion Canada Inc. The sales figure includes management fees for Group services.

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

Several of the Directors made purchases of goods from the Group during the year on the same terms as those available to all employees. Total purchases did not exceed £1,000 for any Director in the year or in the prior year.

No 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.

The key management personnel of the Group are considered to be the Directors, the remuneration of whom is set out in the Directors' Remuneration Report on page 24.

# Notes to the Consolidated Financial Statements

continued

## 30. Pensions

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

The total cost charged to income of £742,000 (2009 – £684,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes

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

For the defined benefit scheme, the most recent triennial valuation was at 5 April 2008. The main actuarial assumptions used in the valuation were

- Price inflation of 3.70% per annum
- Pre-retirement valuation rate of interest of 6.60% per annum
- Post-retirement valuation rate of interest of 4.60% per annum
- Increases to pensions in payment of 5.00% per annum on benefits in excess of the guaranteed minimum pension (GMP) earned prior to 6 April 1997 and 3.50% per annum on pensions earned after 6 April 1997
- Mortality experience based upon PCA00 tables with improvements based on year of birth and medium cohort improvements, subject to a minimum level of improvement of 1% per annum

At the date of the last valuation on 5 April 2008 the market value of the scheme assets was £19,253,000 and the scheme had a deficiency of £5,397,000

The Group has applied IAS 19 *Employee Benefits* in full

The actuarial valuation of the scheme was updated at 31 December 2010, 31 December 2009 and 31 December 2008 by qualified actuaries

The major assumptions used by the actuaries were

	2010	2009	2008
Rate of increase in pensions in payment			
Post 06/04/88 GMP	<b>3.00%</b>	3.00%	3.00%
Pre 06/04/97 excess over GMP	<b>5.00%</b>	5.00%	5.00%
Post 06/04/97 pension	<b>3.40%</b>	3.45%	3.20%
Rate of revaluation of pensions in deferment	<b>3.50%</b>	3.55%	3.30%
Rate used to discount scheme liabilities	<b>5.40%</b>	5.75%	6.10%
Inflation assumption	<b>3.50%</b>	3.55%	3.30%

## Notes to the Consolidated Financial Statements

continued

### 30. Pensions continued

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

	2010		2009	
	Expected rate of return	Fair value £'000	Expected rate of return	Fair value £'000
<b>Scheme assets</b>				
Equities	7.50%	11,997	7.70%	12,825
Bonds	5.40%	2,165	4.50%	6,351
Insured annuities	5.40%	6,432	5.75%	301
Cash	0.50%	568	0.50%	158
<b>Total fair value of assets</b>		<b>21,162</b>		<b>19,635</b>
<b>Present value of defined benefit obligations</b>		<b>(25,464)</b>		<b>(23,272)</b>
<b>Deficit in the scheme</b>		<b>(4,302)</b>		<b>(3,637)</b>

*Analysis of the amount charged to operating profit*

	2010 £'000	2009 £'000
Current service cost	-	-
Past service cost	-	-
	-	-

*Analysis of the amount charged to other finance costs*

	2010 £'000	2009 £'000
Expected return on pension scheme assets	1,306	974
Interest on pension scheme liabilities	(1,316)	(1,243)
<b>Amount charged to other finance costs</b>	<b>(10)</b>	<b>(269)</b>

The cumulative amount of actuarial gains and losses recognised in the Consolidated Statement of Comprehensive Income since adoption of IFRS is a loss of £2,135,000 (2009 - loss of £529,000)

*Analysis of the actuarial (loss)/gain recognised in the Consolidated Statement of Comprehensive Income*

	2010 £'000	2009 £'000
Actuarial return less expected return on pension scheme assets	40	2,211
Experience gains and losses arising on the scheme liabilities	-	-
Changes in assumptions underlying the present value of the scheme liabilities	(1,646)	(1,957)
<b>Actuarial (loss)/gain recognised in the Consolidated Statement of Comprehensive Income</b>	<b>(1,606)</b>	<b>254</b>

# Notes to the Consolidated Financial Statements

continued

## 30. Pensions continued

The basis used to determine the return on scheme assets is as follows

Equities — 3.50% premium on the 20 year fixed-interest gilt rate of 4.20% less 0.2% for expenses

Bonds — 15 year average redemption yield on sterling corporate bonds of 5.40%

Insured annuities — valued at the scheme discount rate of 5.40%

Cash — UK base rate at 31 December 2010 of 0.5%

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

	2010 £'000	2009 £'000
At 1 January	23,272	20,681
Service cost	-	-
Interest cost	1,316	1,243
Actuarial gains and losses	1,646	1,957
Benefits paid	(770)	(609)
<b>At 31 December</b>	<b>25,464</b>	<b>23,272</b>

Movements in the fair value of scheme assets were as follows

	2010 £'000	2009 £'000
At 1 January	19,635	16,459
Expected return on scheme assets	1,306	974
Actuarial gains and losses	40	2,211
Contributions by the employer	951	600
Benefits paid	(770)	(609)
<b>At 31 December</b>	<b>21,162</b>	<b>19,635</b>

The history of experience adjustments is as follows

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Present value of defined benefits	(25,464)	(23,272)	(20,681)	(22,676)	(25,104)
Fair value of scheme assets	21,162	19,635	16,459	20,178	19,397
Deficit in the scheme	(4,302)	(3,637)	(4,222)	(2,498)	(5,707)
<i>Experience adjustment on scheme liabilities</i>					
Amount	-	-	1,861	-	-
Percentage of scheme liabilities (%)	-	-	9%	-	-
<i>Experience adjustment on scheme assets</i>					
Amount	40	2,211	(4,696)	(104)	998
Percentage of scheme assets (%)	0%	11%	29%	1%	5%

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## Notes to the Consolidated Financial Statements

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### 30 Pensions continued

The estimated amount of contributions expected to be paid to the scheme during the current financial year is £1,032,000 (2010 – £951,000)

Following the decision for the scheme to be frozen, i.e. closed to new entrants and to future accrual with effect from 5 April 1999, formal notice was given to employees in January 1999. A defined contribution pension scheme commenced on 6 April 1999 for all eligible UK employees. This scheme was closed on 31 October 2002 and was replaced by a Group stakeholder pension plan.

At 31 December 2010, contributions of £73,000 (2009 – £30,000) due in respect of the current reporting period had not been paid over to the UK schemes.

In the United States there was a provision for payments into the money purchase scheme of £103,000 (2009 – £82,000) at 31 December 2010.

### 31. Financial instruments

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

#### *Financial risk management objectives*

##### **Capital management**

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

##### **Credit risk**

The Group's principal financial assets are cash, short-term deposits and trade receivables. The Group's policy is to place funds on short-term deposit with highly rated institutions. Accounts receivable are monitored closely and provisions are made for bad and doubtful debts where appropriate. The creditworthiness of customers is assessed prior to opening new accounts and on a regular basis for significant customers. The assessment of credit quality is outlined in note 19.

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

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

##### **Foreign currency risk management**

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 risk of exposure to foreign currency arises from the US Dollar sales made by the UK subsidiary to the US subsidiary. The Group's net exposure to US Dollar cash flows for the coming year is not expected to be significant due to a natural hedged position. Subsequent to the year end the Group placed forward contracts for Canadian Dollars and Euros, and an average rate option in US Dollars to manage the risk arising from the retranslation of profit made in the USA.

# Notes to the Consolidated Financial Statements

continued

## 31. Financial instruments continued

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

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

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

	Liabilities		Assets	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Euro	91	92	593	602
US Dollar	3,420	1,877	7,789	5,210
Canadian Dollar	-	-	336	85
Swedish Krona	5	1	74	52
Norwegian Krone	-	-	83	118

### Foreign currency sensitivity analysis

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

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

	Euro impact		US Dollar impact		Canadian Dollar impact		Swedish Krona impact		Norwegian Krone impact	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Profit or loss	(46)	(46)	126	19	(31)	(8)	(7)	(5)	(8)	(10)
Other equity	-	-	(523)	(322)	-	-	-	-	-	-

### Liquidity risk management

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

# Notes to the Consolidated Financial Statements

continued

## 31 Financial instruments continued

### Liquidity and interest risk tables

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

At 31 December 2010	Weighted average effective interest rate %	Less than 1 month £'000	1-3 months £'000	Over 3 months £'000	Non- financial assets/ (liabilities) £'000	Total £'000
Financial assets	-	4,300	2,291	-	-	6,591
Other assets	-	-	-	-	21,145	21,145
Cash and cash equivalents	0.5%	6,249	-	-	-	6,249
<b>Total assets</b>		<b>10,549</b>	<b>2,291</b>	<b>-</b>	<b>21,145</b>	<b>33,985</b>
Shareholders' funds	-	-	-	-	(22,122)	(22,122)
Financial liabilities	-	(5,754)	(1,071)	(379)	-	(7,204)
Other liabilities	-	-	-	(357)	-	(357)
Pension scheme deficit	-	-	-	-	(4,302)	(4,302)
<b>Total liabilities and shareholders' funds</b>		<b>(5,754)</b>	<b>(1,071)</b>	<b>(736)</b>	<b>(26,424)</b>	<b>(33,985)</b>
<b>Cumulative gap</b>		<b>4,795</b>	<b>6,015</b>	<b>5,279</b>	<b>-</b>	<b>-</b>

At 31 December 2009	Weighted average effective interest rate %	Less than 1 month £'000	1-3 months £'000	Over 3 months £'000	Non- financial assets/ (liabilities) £'000	Total £'000
Financial assets	-	4,373	1,977	-	-	6,350
Other assets	-	-	-	-	19,091	19,091
Cash and cash equivalents	0.5%	5,439	-	-	-	5,439
<b>Total assets</b>		<b>9,812</b>	<b>1,977</b>	<b>-</b>	<b>19,091</b>	<b>30,880</b>
Shareholders' funds	-	-	-	-	(20,486)	(20,486)
Borrowings	4%	(24)	(48)	(975)	-	(1,047)
Financial liabilities	-	(3,910)	(1,055)	(163)	-	(5,128)
Other liabilities	-	-	-	(582)	-	(582)
Pension scheme deficit	-	-	-	-	(3,637)	(3,637)
<b>Total liabilities and shareholders' funds</b>		<b>(3,934)</b>	<b>(1,103)</b>	<b>(1,720)</b>	<b>(24,123)</b>	<b>(30,880)</b>
<b>Cumulative gap</b>		<b>5,878</b>	<b>6,752</b>	<b>5,032</b>	<b>-</b>	<b>-</b>

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The Group expects to meet its obligations in excess of cash held from operating cash flows and proceeds of maturing financial assets. The Group is not significantly exposed at the year end to interest rate risk.

# Notes to the Consolidated Financial Statements

continued

## 31. Financial instruments continued

	Weighted average effective interest rate %	Less than 1 month £'000	1-3 months £'000	Over 3 months £'000	Non- financial liabilities £'000	Total £'000
Trade and other payables	-	5,754	1,071	379	-	7,204
Tax liabilities	-	-	-	300	-	300
Pension scheme deficit	-	-	-	-	4,302	4,302
Grant received	-	-	-	57	-	57
<b>At 31 December 2010</b>		<b>5,754</b>	<b>1,071</b>	<b>736</b>	<b>4,302</b>	<b>11,863</b>

	Weighted average effective interest rate %	Less than 1 month £'000	1-3 months £'000	Over 3 months £'000	Non- financial liabilities £'000	Total £'000
Trade and other payables	-	3,910	1,055	163	-	5,128
Tax liabilities	-	-	-	508	-	508
Borrowings	4%	24	48	975	-	1,047
Pension scheme deficit	-	-	-	-	3,637	3,637
Grant received	-	-	-	74	-	74
<b>At 31 December 2009</b>		<b>3,934</b>	<b>1,103</b>	<b>1,720</b>	<b>3,637</b>	<b>10,394</b>

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# Notes to the Consolidated Financial Statements

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## 32. Share-based payments

### Equity-settled share option schemes

The Group operates two share option schemes for senior managers and Directors

The Group recognised total expenses of £108,000 and £13,000 related to equity share-based payment transactions in 2010 and 2009 respectively

#### a) The Portmeirion 2002 Share Option Scheme

Options are exercisable at a price equal to the average quoted market price of the Company's shares on the three trading days prior to the date of the grant. The vesting period is three years. If the options remain unexercised after a period of between four and ten years from the date of grant the options expire.

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

	<b>2010</b>	<b>Weighted average exercise price</b>		<b>2009</b>	<b>Weighted average exercise price</b>
	<b>Number of share options</b>	<b>£</b>		<b>Number of share options</b>	<b>£</b>
Outstanding at 1 January	<b>533,000</b>	<b>2.733</b>		404,199	2.923
Granted during the year	<b>195,000</b>	<b>3.745</b>		199,000	1.975
Lapsed during the year	-	-		(70,199)	1.675
Surrendered during the year	-	-		-	-
Exercised during the year	<b>(82,856)</b>	<b>3.450</b>		-	-
Outstanding at 31 December	<b>645,144</b>	<b>2.947</b>		533,000	2.733
Exercisable at 31 December	<b>147,144</b>	<b>3.450</b>		-	-

The options outstanding at 31 December 2010 had a weighted average remaining contractual life of 5.7 years (2009 – 4.5 years). In 2010, options were granted on 29 March. The aggregate of the estimated fair value of those options is £211,958. In 2009, options were granted on 28 May. The aggregate of the estimated fair value of those options is £54,874.

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

	<b>2010</b>	<b>2009</b>
Weighted average share price at date of grant	<b>£3.950</b>	£1.925
Weighted average exercise price	<b>£3.745</b>	£1.975
Expected volatility	<b>36%</b>	33%
Expected life	<b>6.5 years</b>	6.5 years
Risk-free rate	<b>3.33%</b>	3.96%
Expected dividend rate	<b>4.00%</b>	7.64%

Expected volatility was determined by calculating the historical volatility over the previous 6.5 years. The expected life used in the model assumes that the options will be exercised on average halfway through the period during which they can be exercised.

# Notes to the Consolidated Financial Statements

continued

## 32. Share-based payments continued

### b) The Portmeirion Group 2010 Deferred Incentive Share Option Plan

Options are granted to Executive Directors in a year over shares with a market value not exceeding 20% of the gross incentive earned by the relevant employee in respect of the previous financial year. Options are exercisable at £1 per individual as the total exercise price. The vesting period is three years. If the options remain unexercised after a period of three years and three months from the date of grant the options expire.

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

	2010		2009	
	Number of share options	Total exercise price £	Number of share options	Total exercise price £
Outstanding at 1 January	-	-	-	-
Granted during the year	28,352	£3	-	-
Lapsed during the year	-	-	-	-
Surrendered during the year	-	-	-	-
Exercised during the year	-	-	-	-
Outstanding at 31 December	28,352	£3	-	-
Exercisable at 31 December	-	-	-	-

The options outstanding at 31 December 2010 had a weighted average remaining contractual life of 2.6 years (2009 – nil). In 2010, options were granted on 27 May. The aggregate of the estimated fair value of those options is £101,646.

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

	2010	2009
Weighted average share price at date of grant	£4.050	-
Weighted average exercise price	Nil	-
Expected volatility	47%	-
Expected life	3.125 years	-
Risk-free rate	1.85%	-
Expected dividend rate	3.90%	-

Expected volatility was determined by calculating the historical volatility over the previous 3.125 years. The expected life used in the model assumes that the options will be exercised on average halfway through the period during which they can be exercised.

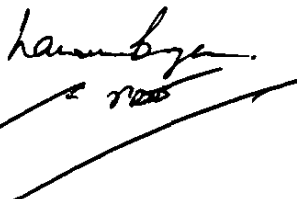
# Company Balance Sheet

31 December 2010

	Notes	2010		2009	
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Investments in subsidiary undertakings	c		1,455		1,455
<b>Current assets</b>					
Cash		4		-	
Debtors all of which fall due after more than one year	d	10,911		10,911	
Creditors amounts falling due within one year	e	(2,638)		(3,424)	
<b>Net current assets</b>			8,277		7,487
<b>Net assets</b>			9,732		8,942
<b>Capital and reserves</b>					
Called up share capital	f		528		528
Share premium account	f		4,951		4,820
Other reserves	f		197		197
Treasury shares	f		(1,047)		(1,202)
Share-based payment reserve	f		267		159
Retained earnings	f		4,836		4,440
<b>Shareholders' funds</b>			9,732		8,942

These financial statements were approved by the Board of Directors and authorised for issue on 22 March 2011. They were signed on its behalf by

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



# Company Reconciliation of Movements in Shareholders' Equity

for the year ended 31 December 2010

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Opening balance	<b>8,942</b>	8,499
Profit for the year	<b>2,003</b>	1,888
Dividends paid	<b>(1,607)</b>	(1,458)
Shares issued under employee share schemes	<b>286</b>	-
Increase in share-based payment reserve	<b>108</b>	13
<b>Closing balance</b>	<b>9,732</b>	8,942

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

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# Notes to the Company Financial Statements

## a Significant accounting policies

### Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law. The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

### Investments

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

## b Profit for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The Company reported a profit for the financial year of £2,003,000 (2009 – £1,888,000). The auditors' remuneration for audit and other services is disclosed in note 9 to the consolidated financial statements.

## c. Fixed asset investment

Subsidiary undertaking

	<b>2010</b>	2009
	<b>£'000</b>	£'000
30,100 (2009 – 30,000) ordinary shares of £1 each in Portmeirion Group UK Limited representing 100% of the issued share capital at cost	<b>1,455</b>	47
Nil (2009 – 100) ordinary shares of no par value in Naugatuck Triangle Corporation representing 100% of the issued share capital at cost	-	1,408
	<b>1,455</b>	1,455

As part of a Group restructuring in the year, the shareholding in Naugatuck Triangle Corporation was exchanged for an additional 100 ordinary shares in Portmeirion Group UK Limited. Portmeirion Group UK Limited subsequently contributed this holding to Portmeirion Enterprises Limited in exchange for an additional 100 shares issued by that company. Both of these transfers were enacted at book value.

# Notes to the Company Financial Statements

continued

## c. Fixed asset investment continued

At 31 December 2010 the Company had the following subsidiary and associated undertakings

	Country of operation and incorporation	Nature of business
<i>Subsidiary undertakings</i>		
Portmeirion Group UK Limited	England and Wales	Pottery manufacturer, marketing and distribution of pottery and accessories
Portmeirion Finance Limited	England and Wales	Dormant
Portmeirion Enterprises Limited*	England and Wales	Intermediate holding Company
Portmeirion Distribution Limited*	England and Wales	Dormant
Portmeirion Services Limited*	England and Wales	Dormant
Portmeirion Group USA, Inc † (formerly Naugatuck Triangle Corporation)	USA	Marketing and distribution of pottery and accessories
Portmeirion Group Designs, LLC^	USA	Dormant
<i>Associated undertakings</i>		
Portmeirion Canada Inc	Canada	Marketing and distribution of pottery and accessories
Furlong Mills Limited	England and Wales	Suppliers and millers of clay

The companies are incorporated in England and Wales and registered in England and Wales except where stated. The share capital of all subsidiary undertakings consists solely of ordinary shares. The Company holds 100% of the share capital of all subsidiaries, 50% of the ordinary share capital of Portmeirion Canada Inc and 27.58% of the ordinary share capital of Furlong Mills Limited. Furlong Mills Limited supplies Portmeirion Group UK Limited with all of its clay raw materials.

\* Wholly owned by Portmeirion Group UK Limited

† Wholly owned by Portmeirion Enterprises Limited

^ Wholly owned by Portmeirion Group USA, Inc

## d Debtors

	2010 £'000	2009 £'000
Loans owed by subsidiary undertakings falling due after more than one year		
Portmeirion Group UK Limited	10,146	10,146
Portmeirion Enterprises Limited	705	705
Portmeirion Distribution Limited	60	60
	<b>10,911</b>	<b>10,911</b>

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# Notes to the Company Financial Statements

continued

## e Creditors

	2010 £'000	2009 £'000
Amounts falling due within one year		
Amounts owed to subsidiary undertaking, Portmeirion Group UK Limited	2,563	3,323
Other taxation and social security	6	6
Other creditors	43	43
Corporation tax	26	52
	<b>2,638</b>	<b>3,424</b>

## f. Share capital, share premium account and reserves

Details of share capital are disclosed in note 24 to the consolidated financial statements

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

	Share premium account £'000	Other reserves £'000	Treasury shares £'000	Share- based payment reserve £'000	Retained earnings £'000
At 1 January 2009	4,820	197	(1,202)	146	4,010
Profit for the financial year	-	-	-	-	1,888
Dividends paid	-	-	-	-	(1,458)
Increase in share-based payment reserve	-	-	-	13	-
At 1 January 2010	4,820	197	(1,202)	159	4,440
Profit for the financial year	-	-	-	-	2,003
Dividends paid	-	-	-	-	(1,607)
Increase in share-based payment reserve	-	-	-	108	-
Share issued under employee share schemes	131	-	155	-	-
<b>At 31 December 2010</b>	<b>4,951</b>	<b>197</b>	<b>(1,047)</b>	<b>267</b>	<b>4,836</b>

## g. Related party transactions

During 2010 net transactions totalling £760,000 were debited (2009 - £390,000 debited) to the intercompany account with the Company's subsidiary, Portmeirion Group UK Limited. These transactions represented payments and receipts made on behalf of the Company by Portmeirion Group UK Limited, a tax adjustment, an intergroup dividend and the transfer of the share-based payment reserve.

The outstanding balances with subsidiary undertakings at 31 December 2010 and 31 December 2009 are shown in notes d and e above. The loans owed by subsidiary undertakings are not considered to be repayable within one year.

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

## h. Contingent liabilities

The Company is a party to the landlord guarantee referred to in note 28 and the finance liability disclosed in note 21.

# Five Year Summary

## CONSOLIDATED INCOME STATEMENT INFORMATION

Years ended 31 December

	2006 £'000	2007 £'000	2008 £'000	2009 £'000	2010 £'000
<b>Revenue</b>	28,422	32,017	31,838	43,165	<b>51,243</b>
<b>Profit before tax</b>	2,687	4,419	1,090	3,718	<b>5,249</b>
Tax	(938)	(1,393)	(515)	(1,265)	<b>(1,774)</b>
<b>Profit attributable to equity holders</b>	1,749	3,026	575	2,453	<b>3,475</b>
Earnings per share	17.81p	30.77p	5.81p	24.73p	<b>34.91p</b>
Dividends paid and proposed per share	14.00p	14.70p	14.70p	15.80p	<b>17.40p</b>

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## CONSOLIDATED BALANCE SHEET INFORMATION

At 31 December

	2006 £'000	2007 £'000	2008 £'000	2009 £'000	2010 £'000
<b>Assets employed</b>					
Non-current assets	9,390	8,767	8,041	9,622	<b>10,379</b>
Current assets	18,477	18,919	20,651	21,258	<b>23,606</b>
Current liabilities	(5,574)	(4,608)	(4,318)	(5,920)	<b>(7,504)</b>
Non-current liabilities	(5,707)	(2,498)	(4,326)	(4,474)	<b>(4,359)</b>
	16,586	20,580	20,048	20,486	<b>22,122</b>
<b>Financed by</b>					
Called up share capital	523	528	528	528	<b>528</b>
Share premium account and reserves	16,063	20,052	19,520	19,958	<b>21,594</b>
	16,586	20,580	20,048	20,486	<b>22,122</b>

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## Company Information

### Board of Directors

Richard J Steele BCOM FCA CTA  
Lawrence F Bryan BA  
Michael Haynes MCIM  
Brett W J Phillips BSc ACA  
Barbara Thomas Judge BA JD  
Janis Kong BSc OBE

Non-executive Chairman  
Chief Executive  
Group Sales & Marketing Director  
Group Finance Director  
Non-executive Director  
Non-executive Director

### Secretary

Brett W J Phillips BSc ACA

### Registered Office and Number

London Road  
Stoke-on-Trent  
ST4 7QQ  
Tel +44 (0) 1782 744721  
Fax +44 (0) 1782 744061  
[www.portmeiriongroup.com](http://www.portmeiriongroup.com)  
Registered number 124842

### Auditors

Mazars LLP  
45 Church Street  
Birmingham B3 2RT

### Nominated Adviser and Stockbroker

Seymour Pierce Limited  
20 Old Bailey  
London EC4M 7EN

### Registrars

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU  
Tel 0871 664 0300\* (UK)  
+44 (0) 208 639 3399 (Outside UK)  
Fax +44 (0) 208 639 2220  
Email [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)  
[www.capitaregistrars.com](http://www.capitaregistrars.com)

\* Calls cost 10p per minute plus network extras  
Lines open between 8 30 am and 5 30 pm,  
Monday-Friday excl bank holidays

### Solicitors

Pinsent Masons LLP  
3 Colmore Circus  
Birmingham B4 6BH

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

### Financial PR Advisers

Pelham Bell Pottinger  
5th Floor, Holborn Gate  
330 High Holborn  
London WC1V 7QD  
Tel +44 (0) 20 7861 3232  
Fax +44 (0) 20 7861 3233  
Email [pr@pelhambellpottinger.co.uk](mailto:pr@pelhambellpottinger.co.uk)

# Financial Calendar

<b>Annual General Meeting</b>	May
<b>Interim Report</b>	August
<b>Dividends</b>	
Interim announced	August
Paid	October
Final announced	March
Paid	May

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## Factory Shops and Stockists

### UK Factory Shops

#### Bridgend Shop

McArthurGlen  
Unit 71, Designer Outlet  
The Derwen, Bridgend  
South Wales  
CF32 9SU  
Tel +44 (0)1656 669038

#### Stoke Shop

London Road  
Stoke-on-Trent  
Staffordshire  
ST4 7QQ  
Tel +44 (0)1782 411756

#### Cheshire Oaks Shop

Unit 72, Cheshire Oaks Designer Outlet  
Kinsey Road  
Ellesmere Port  
Cheshire  
CH65 9JJ  
Tel +44 (0)151 355 1538

#### Street Shop

Clarks Village  
Farm Road  
Street  
Somerset  
BA16 0BB  
Tel +44 (0)1458 446703

#### Colne Shop 'Boundary Mill'

Vivary Way  
Colne  
Lancashire  
BB8 9NW  
Tel +44 (0)1282 856200

#### Swindon Shop 'At Home'

McArthurGlen, Great Western Village  
Kemble Drive  
Swindon  
Wiltshire  
SN2 2DY  
Tel +44 (0)1793 422910

#### East Midlands Shop

Unit 12a, East Midlands Designer Outlet  
Mansfield Road  
South Normanton  
Derbyshire  
DE55 2JW  
Tel +44 (0)1773 545375

#### Trenttham Shop

Unit 230, Trenttham Retail Village  
Trenttham  
Staffordshire  
ST4 8AX  
Tel +44 (0)1782 657828

#### Longton, King Street Shop

473 King Street  
Longton  
Staffordshire  
ST3 1EU  
Tel +44 (0)1782 326661

#### Walsall Shop 'Boundary Mill'

Bentley Mill Way  
Walsall  
West Midlands  
WS2 0LE  
Tel +44 (0)1922 618200

### Worldwide Stockists

Details of worldwide stockists can be found on our website [www.portmeiriongroup.com](http://www.portmeiriongroup.com)

### Portmeirion Group Patterns

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