Company Registration No. 417484

PORTMEIRION GROUP UK LIMITED

Report and Financial Statements

31 December 2012

PORTMEIRION GROUP UK LIMITED

REPORT AND FINANCIAL STATEMENTS 2012

CONTENTS

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2012

PRINCIPAL ACTIVITY

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

BUSINESS REVIEW, FUTURE PROSPECTS AND RESULTS

The results of the company are set out on page 6

The profit for the year added to reserves amounted to £5,319,000 (2011 £7,471,000) The directors expect the company to continue trading profitably in the current year

Pre-tax profit of £6,407,000 was a reduction of 24% from prior year (2011 £8,413,000) The most significant factor in this decrease was a reduction in the intercompany dividend received from Portmeirion Enterprises Limited from £4,153,000 to £1,241,000 Despite a marginal fall in sales, operating profitability was increased from £4,295,000 to £5,256,000 due to overhead decreases

Details of significant events since the balance sheet date are contained in note 28 to the financial statements

Key Performance Indicators

The 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 The following are regarded as key performance indicators – turnover, profit before tax, operating cash flow and earnings per share

Many other non-financial performance measures are used to manage the business including customer service levels, new product delivery performance and incidence of accidents

Principal risks and uncertainties

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

Economic downturn – the company 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 could result in losing sales to key competitors The company manages this risk by providing quality products and maintaining strong relationships with its key customers

Reliance on key suppliers – the company's purchasing activities could expose it to over reliance on certain suppliers and inflationary pricing pressure To mitigate this, the company seeks to ensure there is enough breadth in its supplier base such that this risk remains manageable

Loss of key personnel – this would present significant operational difficulties for the company Management seek to ensure that key personnel are appropriately remunerated to ensure that good performance is recognised

Financial risk management policies

The principal financial risks to the company are credit risk and currency exchange rate risk

Credit risk

The company's principal financial assets are cash, short term deposits and trade receivables The company'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 company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics

DIRECTORS' REPORT (continued)

Currency exchange rate risk

The company 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 to the US subsidiary The company's net US dollar exposure for the coming year is not expected to be significant due to a natural hedged position At the year end the company had in place forward contracts for US dollars and subsequent to the year end the company placed additional forward contracts for US dollars, forward contracts for Canadian dollars, and an average rate option in US dollars to manage the risk arising from the retranslation of profit made in the USA included in the group consolidated accounts

The company enters into derivative transactions only to manage exposure arising from its underlying business No speculative derivative contracts are entered into

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out on page 1 In addition, the company's financial risk management policies are set out on pages 1 and 2

The company ended 2012 with a cash balance of £6 8 million and an unused bank facility with available funding of £4 million

The company manufactures approximately 40% of its products and sources the remainder from third party suppliers The company 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 company is well placed to manage its business risks successfully despite the uncertain economic outlook

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the accounts

DIVIDEND

An interim dividend of £3,010,000 was paid in the year (2011 £1,054,000) The directors do not recommend the payment of a final dividend for 2012 (2011 £nil)

DIRECTORS

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

P E Atherton	(appointed 27 February 2013)
L F Bryan	
A Devine	(resigned 14 September 2012)
M Haynes	(resigned 11 March 2013)
M J Knapper	
M McGuire	(resigned 31 January 2013)
B W J Phillips	
N H Spencer	(appointed 23 July 2012)

Details of transactions with directors and other related parties are to be found in note 24

DIRECTORS' INDEMNITIES

The company made qualifying third party indemnity provisions for the benefit of its directors which remain in force at the date of this report

EMPLOYEES' INVOLVEMENT

The company 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 2012, to complement these discussions, the company has continued communicating information from board level to all employees on a regular basis via a programme of team briefings and by use of the company's intranet and notice boards

Group share option and profit related incentive schemes are operated to encourage the involvement of employees in the company's performance The company is an Investor in People and the directors are committed to the continuing development of the company's employees via the principles of Investors in People

DIRECTORS' REPORT (continued)

EMPLOYMENT OF DISABLED PERSONS

It is the company'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 retrain any member of staff who develops a disability during employment with the company

SUPPLIER PAYMENT POLICY

Payment terms are agreed with each of the company's major suppliers The company abides by these terms provided that the supplier also complies with the agreed terms and conditions The policy for other suppliers is generally to make payment by the end of the month following receipt of a valid invoice All payment terms are stated at the time orders are placed

The number of days' purchases represented by trade creditors at 31 December 2012 was 29 (2011 34)

CHARITABLE AND POLITICAL DONATIONS

Contributions to various charities in the form of goods amounted to £2,400 (2011 £1,644) at cost during the year In addition cash donations of £245 (2011 £1,200) were made to registered charities There were no political contributions during the year

AUDITORS

Mazars LLP have indicated their willingness to be reappointed for another term and they will be deemed reappointed as auditors in the absence of an Annual General Meeting

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

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

(2) the director has taken all the steps that he ought to have taken as a director in order to make himself 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

Approved by the board of directors and signed on its behalf by

B W J Phillips

Secretary

6 SEPTEMBER 2013

PORTMEIRION GROUP UK LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PORTMEIRION GROUP UK LIMITED

We have audited the financial statements of Portmeirion Group UK Limited for the year ended 31 December 2012 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes The financial reporting framework that has been applied in their preparation 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 4, 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 Financial Reporting Council's website at www frc org uk/auditscopeukprivate

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on the other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report 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 matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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
B3 2RT

10 September 2013

PORTMEIRION GROUP UK LIMITED

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Turnover	4	38,118	38,147
Operating costs	5	(32,862)	(33,852)
Operating profit	6	5,256	4,295
Investment income – dividends received	7	1,241	4,153
Net interest payable	8	(35)	(57)
Other (finance costs)/income	25	(55)	22
Profit on ordinary activities before taxation		6,407	8,413
Tax on profit on ordinary activities	9	(1,088)	(942)
Profit for the financial year	21	5,319	7,471

All activities derive from continuing operations

PORTMEIRION GROUP UK LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Profit for the financial year		5,319	7,471
Actuarial loss on defined benefit pension scheme	25	(832)	(1,642)
Related deferred tax on actuarial loss		28	280
Total recognised gains and losses for the financial year		4,515	6,109

PORTMEIRION GROUP UK LIMITED

BALANCE SHEET
31 December 2012

	Note	2012 £'000	2012 £'000	2011 £'000	2011 £'000
FIXED ASSETS					
Intangible assets	10		1,374		1,591
Tangible assets	11		5,142		5,310
Investments	12		1,483		1,483
			7,999		8,384
CURRENT ASSETS					
Stocks	13	7,483		7,027	
Debtors	14	13,437		12,085	
Cash at bank and in hand		6,834		6,453	
		27,754		25,565	
CREDITORS: amounts falling due within one year	15	(6,489)		(6,290)	
NET CURRENT ASSETS			21,265		19,275
TOTAL ASSETS LESS CURRENT LIABILITIES			29,264		27,659
CREDITORS: amounts falling due after more than one year	16		(10,146)		(10,146)
Provision for liabilities	18		(331)		(395)
NET ASSETS EXCLUDING PENSION DEFICIT			18,787		17,118
Pension scheme deficit net of related deferred tax	25		(3,815)		(3,651)
NET ASSETS			14,972		13,467
CAPITAL AND RESERVES					
Called up share capital	20		30		30
Share premium account	21		1,408		1,408
Profit and loss account	21		13,534		12,029
SHAREHOLDERS' FUNDS	19		14,972		13,467

The financial statements of Portmeirion Group UK Limited, company registration number 417484, were approved and authorised for issue by the board of directors on 6 SEPTEMBER 2013

Signed on behalf of the board of directors

B W J Phillips

Director

1. ACCOUNTING POLICIES

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

The going concern basis has been considered in the directors' report on page 2

Accounting basis

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

Consolidated financial statements

The company has not prepared consolidated financial statements under the exemption permitted by s400 of the Companies Act 2006 as it is itself a wholly owned subsidiary undertaking of Portmeirion Group PLC which is registered in England and Wales and prepares consolidated financial statements

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes

Cash flow statement

The company has taken advantage of the exemption under FRS1 (revised) not to prepare a cash flow statement as the company is a wholly owned subsidiary undertaking of a parent company whose financial statements for the year ended 31 December 2012 include a consolidated cash flow statement

Tangible fixed assets

Tangible fixed assets are stated at cost less provision for depreciation and any provision for impairment Depreciation is provided by either the reducing balance method or the straight-line method at rates calculated to write off the cost of the assets less their estimated residual value over their expected useful lives, as follows

Freehold land is not depreciated	
Freehold buildings	2% per annum
Short leasehold buildings	over the life of the lease
Plant, equipment and vehicles	6% to 33% per annum
Computer software	10% to 33% per annum

Intangible fixed assets

Purchased trade marks are included at cost and written off in equal annual instalments over 5-10 years, which is their estimated useful economic life Provision is made for any impairment

Operating leases

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

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

Investments

Investments held as fixed assets are stated at cost less any provision made for impairment

Stocks

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

Research and development

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

1. ACCOUNTING POLICIES (continued)

Taxation

Current tax including UK corporation tax and foreign tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

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

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

Translation of foreign currencies

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

Company pension scheme

The company operates a stakeholder pension plan, which is a defined contribution scheme For this scheme the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet

For defined benefit schemes, the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments They are included as part of staff costs Past service costs are recognised immediately in the profit and loss account if the benefits have vested If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs The interest cost and the expected return on assets are shown as a net amount of other finance costs or income Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses

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

Related party transactions

The company has taken advantage of the exemption allowed to subsidiary companies under FRS 8 "Related party transactions" Other than those transactions disclosed in note 24, transactions with other group companies are not disclosed separately

Share-based payments

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

Fair value is measured by use of the Black-Scholes pricing model The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferabilty, exercise restrictions and behavioural considerations The company recognises share-based payment expenses recharged by its parent company

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 December 2012

2 KEY ACCOUNTING JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

In the application of the company's accounting policies, which are described in note 1, 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 following are the key judgements that the directors have made in the process of applying the company'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 £7,483,000 (2011 £7,027,000)

Defined benefit pension scheme

The valuation of the company's defined benefit pension scheme assets and liabilities under FRS 17 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 £4,955,000 (2011 £4,868,000)

3 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2012 £'000	2011 £'000
Directors' emoluments		
Emoluments	1,124	1,231
Pension contributions	98	74
	1,222	1,305
Remuneration of the highest paid director	275	357
Pension contributions in respect of the highest paid director	12	11

The highest paid director exercised options in the year over shares in the company's ultimate holding company, Portmeirion Group PLC

	No.	No.
Number of directors who were members of a defined contribution pension scheme during the year	7	6
Number of directors who exercised options over shares in the ultimate parent company	7	5

Average number of persons employed (including directors)		
Production operatives	340	341
Management and administration	210	203
	550	544

	£'000	£'000
Staff costs during the year (including directors)		
Wages and salaries	10,746	11,651
Social security costs	951	1,070
Other pension costs	801	654
	12,498	13,375

Note 25 provides information on the defined contribution and defined benefit pension schemes which are in operation

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 December 2012

4. SEGMENTAL ANALYSIS

The directors are of the opinion that only one class of business is being undertaken, that of the manufacture and sale of pottery and associated homeware The geographical analysis of turnover is as follows

Turnover by destination	2012 £'000	2011 £'000
United Kingdom	14,915	13,825
United States	2,853	5,888
South Korea	12,135	10,729
Rest of the World	8,215	7,705
	38,118	38,147

No geographical analysis of turnover, profit or net assets by origin is required since all originate in the United Kingdom

5. OPERATING COSTS

	2012 £'000	2011 £'000
Change in stocks of finished goods and work in progress	(486)	(262)
Raw materials and consumables	14,979	14,153
Other external charges	4,881	5,624
Staff costs (see note 3)	12,498	13,375
Depreciation of tangible assets	773	662
Amortisation of intangible assets	217	300
	32,862	33,852

6. OPERATING PROFIT

Operating profit is stated after charging.	2012 £'000	2011 £'000
Depreciation	773	662
Amortisation of intangible assets	217	300
Research and development	232	219
Operating lease rentals - land and buildings	663	660
- other	106	93
Loss on disposal of fixed assets	1	1

	2012 £'000	2011 £'000
The analysis of auditors' remuneration is as follows		
Fees payable for the audit of the company's financial statements	25	25
Fees payable to the company's auditors for other services		
Audit of the Portmeirion Potteries Ltd Retirement Benefit Scheme	4	4
Tax compliance services	8	8
Other taxation advisory services*	24	7
All other services	6	2
Total fees payable for other services	42	21

*Other taxation advisory services include fees related to the establishment of operations in Hong Kong and China

7. INVESTMENT INCOME

	2012 £'000	2011 £'000
Income from fixed asset investments	1,241	4,153

8. NET INTEREST PAYABLE

	2012 £'000	2011 £'000
Interest receivable and similar income	15	8
Interest payable and similar charges	(50)	(65)
Net interest payable	(35)	(57)

9 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2012 £'000	2011 £'000
United Kingdom corporation tax at 24 5% (2011 26 5%)	1,048	734
Adjustment in respect of prior years	-	(10)
Total current tax charge	1,048	724
Deferred taxation		
Origination and reversal of timing differences	(64)	(7)
Pension scheme	104	225
Total deferred tax	40	218
Tax on profit on ordinary activities	1,088	942

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 24 5% (2011 26 5%) The actual tax charge for the current and previous year differs from the standard rate for the reasons set out in the following reconciliation

	2012 £'000	2011 £'000
Profit on ordinary activities before tax	6,407	8,413
Tax on profit on ordinary activities at standard rate	1,570	2,229
Factors affecting tax charge:		
Fixed asset timing differences	60	4
Other timing differences	16	-
Income not taxable	(257)	(1,050)
Exercise of share options	(120)	(113)
Transfer pricing adjustment	(29)	(20)
FRS 17 pension adjustment	(183)	(285)
Adjustment to tax charge in respect of prior years	-	(10)
Group relief	(9)	(31)
Current tax charge for the year	1,048	724

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 December 2012

10. INTANGIBLE FIXED ASSETS

	Intellectual Property £'000
Cost	
At 1 January 2012 and 31 December 2012	2,693
Amortisation	
At 1 January 2012	1,102
Charge for the year	217
At 31 December 2012	1,319
Net book value	
At 31 December 2012	1,374
At 31 December 2011	1,591

11 TANGIBLE FIXED ASSETS

	Land and buildings			
	Freehold £'000	Short leasehold £'000	Plant and vehicles £'000	Total £'000
Cost				
At 1 January 2012	3,857	760	12,357	16,974
Additions	-	-	606	606
Disposals	-	-	(8)	(8)
At 31 December 2012	3,857	760	12,955	17,572
Depreciation				
At 1 January 2012	1,612	481	9,571	11,664
Charge for the year	70	29	674	773
Disposals	-	-	(7)	(7)
At 31 December 2012	1,682	510	10,238	12,430
Net book value				
At 31 December 2012	2,175	250	2,717	5,142
At 31 December 2011	2,245	279	2,786	5,310

At 31 December 2012, the company had entered into contractual commitments for the acquisition of tangible fixed assets amounting to £15,000 (2011 £113,000)

12. INVESTMENTS

	2012 £'000	2011 £'000
Subsidiary undertakings – cost and net book value		
Portmeirion Enterprises Limited		
200 ordinary shares of £1 each representing 100% of the issued share capital	1,408	1,408
Portmeirion Distribution Limited		
100 ordinary shares of £1 each representing 100% of the issued share capital	-	-
Portmeirion Services Limited		
750,000 ordinary shares of £1 each representing 100% of the issued share capital less provision of £750,000	-	-
Portmeirion Group Hong Kong Limited		
1 ordinary share of HKD1 00 representing 100% of the issued share capital	-	-
Associated undertakings – cost and net book value		
Furlong Mills Limited		
2,080 ordinary shares of £1 each representing 27 58% of the issued share capital	66	66
Portmeirion Canada Inc		
100 common shares representing 50% of the issued share capital	9	9
Others – cost and net book value		
Dalehall Mills Limited		
200 ordinary shares of £1 each representing 0 17% of the issued share capital	-	-
Cost and net book value	1,483	1,483

During the year the company purchased 1 ordinary share at a price of HKD1 00, which represents 100% of the issued share capital of Portmeirion Group Hong Kong Limited

The investments are unlisted The results and net assets of the subsidiary undertakings and the company's share of the profit or loss and retained earnings of the associated undertakings are not included in the financial statements of this company as the company is itself a wholly owned subsidiary undertaking

The company has two associated undertakings At 31 December 2012, Portmeirion Canada Inc had aggregate capital and reserves of £2,096,000 (2011 £2,121,000) including the retained profit for the year of £23,000 (2011 retained loss of £4,000), and Furlong Mills Limited had aggregate capital and reserves of £3,863,000 (2011 £3,497,000) including the retained profit for the year of £365,000 (2011 £296,000)

At 31 December 2012, the company had the following subsidiary and associated undertakings

Subsidiary undertakings	**Country of operation and incorporation**	**Nature of business**
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 *	USA	Marketing and distribution of homeware
Portmeirion Group Designs, LLC^	USA	Dormant
Portmeirion Group Hong Kong Limited	Hong Kong	Intermediate holding company
Portmeirion (Shenzhen) Trading Company~	China	Dormant
Associated undertakings		
Furlong Mills Limited	England and Wales	Suppliers and millers of clay
Portmeirion Canada Inc	Canada	Marketing and distribution of homeware

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

* Wholly owned by Portmeirion Enterprises Limited

^ Wholly owned by Portmeirion Group USA, Inc

~Wholly owned by Portmeirion Group Hong Kong Limited

13 STOCKS

	2012 £'000	2011 £'000
Raw materials and other consumables	1,733	1,763
Work in progress	420	477
Finished goods	5,330	4,787
	7,483	7,027

There is no material difference between the balance sheet value of stocks and their replacement cost

14. DEBTORS: due within one year

	2012 £'000	2011 £'000
Trade debtors	6,707	3,635
Amounts owed by group undertakings	5,766	6,880
Amounts owed by associated undertakings	221	833
Other debtors	53	43
Prepayments and accrued income	690	694
	13,437	12,085

15 CREDITORS: amounts falling due within one year

	2012 £'000	2011 £'000
Trade creditors	3,555	4,619
Amounts owed to group undertakings	1,485	440
Amounts owed to associated undertakings	72	44
Corporation tax	506	349
Other taxation and social security	328	407
Other creditors	543	431
	6,489	6,290

16. CREDITORS: amounts falling due after more than one year

	2012 £'000	2011 £'000
Loans from ultimate parent company	10,146	10,146
	10,146	10,146

The ultimate parent company will not request repayment prior to 31 December 2013 No interest is charged on this loan

17. BORROWINGS

The company has two facilities

a) A £2,000,000 overdraft facility available until 30 September 2014 Interest is payable at 2 25% on the net pooled fund balance, plus bank base rate on net sterling borrowings

b) A £2,000,000 revolving credit facility available until 30 September 2016 Interest is payable at 2 3% above three month LIBOR

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

Neither of these facilities were being utilised at 31 December 2012

18. PROVISION FOR LIABILITIES

Deferred taxation	£'000
Balance at 1 January 2012	395
Credit for the year	(64)
Balance at 31 December 2012	331

	2012 £'000	2011 £'000
Analysis of balance		
Accelerated capital allowances	69	107
Short term timing differences	(56)	(57)
Capital gains held over	318	345
	331	395

There is no unprovided deferred tax

19. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2012 £'000	2011 £'000
Profit for the financial year	5,319	7,471
Net actuarial loss	(804)	(1,362)
Dividends paid on equity shares	(3,010)	(1,054)
	1,505	5,055
Opening shareholders' funds	13,467	8,412
Closing shareholders' funds	14,972	13,467

20. CALLED UP SHARE CAPITAL

	2012 £'000	2011 £'000
Called up, allotted and fully paid		
30,100 ordinary shares of £1 each	30	30

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 December 2012

21. RESERVES

	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2012	1,408	12,029	13,437
Profit for the financial year	-	5,319	5,319
Net actuarial loss	-	(804)	(804)
Dividends paid on equity shares	-	(3,010)	(3,010)
At 31 December 2012	1,408	13,534	14,942

22. DIVIDENDS ON EQUITY SHARES

	2012 £'000	2011 £'000
Amounts recognised as distributions to equity holders in the year		
Interim dividend for the year	3,010	1,054

The directors do not recommend a payment of a final dividend for 2012 (2011 £nil)

23. FINANCIAL COMMITMENTS

Operating lease commitments

At 31 December 2012, the company was committed to making the following payments during the next year in respect of operating leases

	Land and buildings and motor vehicles 2012 £'000	2011 £'000
Leases which expire		
Within one year	97	88
In two to five years	363	373
After five years	306	307
	766	768

24. RELATED PARTY TRANSACTIONS

The transactions during the year, and outstanding balances at 31 December 2012, with associated undertakings were

	Purchases		Sales		Debtor		Creditor	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Portmeirion Canada Inc	-	-	2,405	2,346	221	833	-	-
Furlong Mills Limited	751	614	-	-	-	-	72	44

Sales to Portmeirion Canada Inc are made at prices agreed between the company and Portmeirion Canada Inc The sales figure includes a management fee for company services

Purchases from Furlong Mills Limited are made at prices agreed between the company and Furlong Mills Limited The company receives a rebate related to its level of purchases from Furlong Mills Limited The purchases figure includes a credit for management fees

Several of the directors made purchases of goods from the company 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

25 PENSIONS

Defined contribution scheme

The company operates a group stakeholder pension plan in the UK

The total cost charged to the profit and loss account in respect of the defined contribution scheme of £801,000 (2011 £654,000) represents contributions payable to this scheme by the company at rates specified in the rules of the scheme

At 31 December 2012, contributions for the defined contribution scheme of £76,000 (2011 £69,000) due in respect of the current reporting period had not been paid over to the UK schemes

Defined benefit scheme

The company also operates a defined benefit scheme which 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 2011 The main actuarial assumptions used in the valuation were

- RPI of 3 65% per annum and CPI of 3 15% per annum
- Pre-retirement valuation rate of interest of 6 55% per annum
- Post-retirement valuation rate of interest of 5 05% 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 with medium cohort improvements, subject to a minimum level of improvement of 1% per annum

At the date of the last valuation on 5 April 2011 the market value of the scheme assets was £21,760,000 and the scheme had a deficiency of £3,028,000

The actuarial valuation of the scheme was updated at 31 December 2012 by qualified actuaries

The major assumptions used by the actuaries were

	2012	2011	2010
Rate of increase in pensions in payment			
Post 06 04 88 GMP	3 00%	3 00%	3 00%
Pre 06 04 97 excess over GMP	5 00%	5 00%	5 00%
Post 06 04 97 pension	2 90%	2 95%	3 40%
Rate of revaluation of pensions in deferment	2 10%	2 20%	3 50%
Rate used to discount scheme liabilities	4 30%	4 70%	5 40%
Inflation assumption			
RPI	2 90%	3 00%	3 50%
CPI	2 10%	2 20%	n/a

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 December 2012

25 PENSIONS (continued)

Fair value of scheme assets, present value of scheme liabilities and expected rate of return on assets

	2012 Expected rate of return	2012 Fair value £'000	2011 Expected rate of return	2011 Fair value £'000	2010 Expected rate of return	2010 Fair value £'000
Equities	6 80%	12,670	6 10%	11,416	7 50%	11,997
Bonds	4 10%	4,133	4 70%	3,516	5 40%	2,165
Insured annuities	4 30%	6,358	4 70%	6,389	5 40%	6,432
Cash	0 50%	497	0 50%	97	0 50%	568
Total fair value of assets		23,658		21,418		21,162
Present value of scheme liabilities		(28,613)		(26,286)		(25,464)
Deficit in the scheme		(4,955)		(4,868)		(4,302)
Related deferred tax		1,140		1,217		1,162
Net pension liability		(3,815)		(3,651)		(3,140)

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

Equities – 4 00% premium on the 20 year fixed-interest gilt rate of 2 80%
Bonds – 15 year average redemption yield on AA-rated sterling corporate bonds of 4 10%
Insured annuities – valued at the scheme discount rate of 4 30%
Cash – UK base rate at 31 December 2012 of 0 5%

Analysis of the amount charged to operating profit

	2012 £'000	2011 £'000
Current service cost	-	-
Past service cost	-	-
	-	-

Analysis of the amount (charged to other finance costs)/ credited to other income

	2012 £'000	2011 £'000
Expected return on pension scheme assets	1,158	1,376
Interest on pension scheme liabilities	(1,213)	(1,354)
Amount (charged to other finance costs)/credited to other income	(55)	22

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 December 2012

25. PENSIONS (continued)

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

	2012 £'000	2011 £'000
Actuarial return less expected return on pension scheme assets	1,260	(1,384)
Changes in assumptions underlying the present value of the scheme liabilities	(2,092)	(258)
Actuarial loss recognised in the statement of total recognised gains and losses	(832)	(1,642)

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

	2012 £'000	2011 £'000
At 1 January	26,286	25,464
Service cost	-	-
Interest cost	1,213	1,354
Actuarial gains and losses	2,092	258
Benefits paid	(978)	(790)
At 31 December	28,613	26,286

Movements in the fair value of scheme assets were as follows

	2012 £'000	2011 £'000
At 1 January	21,418	21,162
Expected return on scheme assets	1,158	1,376
Actuarial gains and losses	1,260	(1,384)
Contributions by the employer	800	1,054
Benefits paid	(978)	(790)
At 31 December	23,658	21,418

History of the deficit in the scheme and experience adjustments

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Present value of defined benefit obligations	(28,613)	(26,286)	(25,464)	(23,272)	(20,681)
Fair value of scheme assets	23,658	21,418	21,162	19,635	16,459
Deficit in the scheme	(4,955)	(4,868)	(4,302)	(3,637)	(4,222)
Experience adjustment on scheme assets	1,260	(1,384)	40	2,211	(4,740)
Percentage of scheme assets	*5%*	*6%*	*0%*	*11%*	*29%*
Experience adjustment on scheme liabilities	(326)	427	-	-	1,861
Percentage of scheme liabilities	*1%*	*2%*	-	-	*9%*

The estimated amount of contributions expected to be paid to the scheme during the current financial year is £800,000 (2012 £800,000) There were no contributions due but unpaid at 31 December 2012

Following the decision for the scheme to be frozen 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 the group stakeholder pension plan described above

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since the adoption of FRS 17 is a loss of £5,650,000 (2011 loss of £4,818,000)

PORTMEIRION GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 December 2012

26. SHARE BASED PAYMENTS

The group operates two share option schemes for senior managers and directors of the company

The company recognised total expenses recharged by its parent company of £172,000 and £162,000 related to equity share-based payment transactions in 2012 and 2011 respectively

a) The Portmeirion 2002 Share Option Scheme

Options are exercisable at a price equal to the average quoted market price of Portmeirion Group PLC'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 ten years from the date of grant the options expire

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

	2012 Number of share options	2012 Weighted average exercise price £	2011 Number of share options	2011 Weighted average exercise price £
Outstanding at 1 January	458,000	3 016	645,144	2 947
Granted during the year	55,500	4 875	40,000	4 890
Lapsed during the year	(27,320)	4 409	-	-
Surrendered during the year	-	-	-	-
Exercised during the year	(193,680)	2 214	(227,144)	3 151
Outstanding at 31 December	292,500	3 770	458,000	3 016
Exercisable at 31 December	45,000	1 975	24,000	2 600

The options outstanding at 31 December 2012 had a weighted average remaining contractual life of 7 6 years (2011 7 6 years) In 2012, options were granted on 20 April The aggregate of the estimated fair value of those options was £62,292 In 2011, options were granted on 28 April The aggregate of the estimated fair value of those options was £53,639

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

	2012	2011
Weighted average share price at date of grant	£4 750	£4 850
Weighted average exercise price	£4 875	£4 890
Expected volatility	38%	37%
Expected life	6 5 years	6 5 years
Risk-free rate	1 37%	3 05%
Expected dividend rate	4 13%	3 59%

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

26 SHARE BASED PAYMENTS (contınued)

b) The Portmeırıon Group 2010 Deferred Incentıve Share Optıon Plan

Optıons are granted to Portmeırıon Group PLC executıve dırectors ın a year over shares wıth a market value not exceedıng 20% of the gross ıncentıve earned by the relevant employee ın respect of the prevıous financıal year Optıons are exercısable at £1 per ındıvıdual as the total exercıse prıce The vestıng perıod ıs three years If the optıons remaın unexercısed after a perıod of three years and three months from the date of grant the optıons expıre

Detaıls of the share optıons outstandıng durıng the year are as follows

	2012 Number of share optıons	2012 Total exercıse prıce £	2011 Number of share optıons	2011 Total exercıse prıce £
Outstandıng at 1 January	52,495	£6	28,352	£3
Granted durıng the year	11,608	£2	24,143	£3
Lapsed durıng the year	-	-	-	-
Surrendered durıng the year	-	-	-	-
Exercısed durıng the year	-	-	-	-
Outstandıng at 31 December	64,103	£8	52,495	£6
Exercısable at 31 December	-	-	-	-

The optıons outstandıng at 31 December 2012 had a weıghted average remaınıng contractual lıfe of 1 3 years (2011 2 1 years) In 2012, optıons were granted on 20 Aprıl The aggregate of the estımated faır value of those optıons was £48,467 In 2011, optıons were granted on 14 Aprıl The aggregate of the estımated faır value of those optıons was £105,875

The ınputs ınto the Black-Scholes prıcıng model were as follows

	2012	2011
Weıghted average share prıce at date of grant	£4 750	£4 900
Weıghted average exercıse prıce	Nıl	Nıl
Expected volatılıty	44%	50%
Expected lıfe	3 125 years	3 125 years
Rısk-free rate	0 77%	1 75%
Expected dıvıdend rate	4 13%	3 55%

Expected volatılıty was determıned by calculatıng the hıstorıcal volatılıty over the prevıous 3 125 years The expected lıfe used ın the model assumes that the optıons wıll be exercısed on average halfway through the perıod durıng whıch they can be exercısed

27. ULTIMATE PARENT COMPANY

The ultımate parent and controllıng company ıs Portmeırıon Group PLC, a company ıncorporated ın the UK and regıstered ın England and Wales Copıes of the Group financıal statements can be obtaıned from the Company Secretary at Portmeırıon Group PLC, London Road, Stoke-on-Trent, Staffordshıre, ST4 7QQ

The largest and smallest groups ınto whıch the results of the company are consolıdated are that of Portmeırıon Group PLC

28. POST BALANCE SHEET EVENT

On 11 July 2013 Portmeirion Distribution Limited, a subsidiary of the company, acquired the long leasehold interest, to expire in May 2156, of a 64,000 sq ft warehouse and offices, which the company currently occupies, located in Stoke-on-Trent for £3 9 million to be paid from existing Group cash resources