

PORTMEIRION GROUP UK LIMITED

Report and Financial Statements

31 December 2014

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PORTMEIRION GROUP UK LIMITED

REPORT AND FINANCIAL STATEMENTS 2014

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STRATEGIC REPORT

The directors present their strategic report for the year ended 31 December 2014.

Review of the business

The results of the company are set out on page 7.

The profit for the year added to reserves amounted to £5,393,000 (2013: £6,044,000). The directors expect the company to continue trading profitably in the current year.

Sales increased by 9% over 2013 to £46,383,000 which resulted in a pre-tax profit of £6,863,000 (2013: £7,331,000). The decrease in profit was due to an increase in operating costs and the absence of an intergroup dividend received in 2013.

The company ended the year with a cash balance of £5,338,000 (2013: £5,697,000).

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 financial performance indicators – turnover, operating profit margin, profit before tax, operating cash flow and earnings per share, and dividend cover for the listed parent company.

Turnover growth is the key driver of business goals, with the ability to satisfy key markets in the United States, UK and South Korea essential, whilst seeking new opportunities for growth in export markets such as India and China. Existing key customers are serviced by targeted product launches specific to the needs and requirements of the end consumer.

Operating profit margin accurately reflects the company's focus on sales growth at a sustainable rate without eroding the gross margins or sizeable fixed cost uplifts. A prudent budgeting process helps the company to grow sales and profitability consistently. The operating profit to sales ratio has decreased in 2014 to 14.9% (2013: 16.3%) largely due to increased costs of production to achieve higher production volume and the continued detrimental impact on margins of the Anti-Dumping Duty imposed by the European Commission on ceramic product imported into the EU from China.

Operating cash flow is important to the company to ensure adequate cash is available to meet business needs. The company aims to optimise working capital wherever possible to ensure a healthy cash balance and limit the borrowing requirements at peak times, typically the third and fourth quarters.

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

New products include line extensions to existing ranges in order to refresh and expand the offering, as well as new ranges launched under one of the company's four brands in order to enhance market share. The increase in products launched during the year to 604 (2013: 540) demonstrates the company's focus on new products and designs.

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 principal risks inherent in the company's business model include the following:

Economic environment – whilst there is renewed optimism regarding the general world economy and hope for an economic recovery, retail conditions remain challenging, particularly in the Eurozone, and further adverse conditions in the retail sector would have a detrimental impact on trading.

The company maintains close relationships with its key customers and suppliers to be able to identify signs of financial difficulties early in order to prevent or limit any potential losses. Customer orders and sales trends in major markets are constantly reviewed to enable early action to be taken in the event of sales declining.

Competitors – the company faces strong competition in most of the major markets in which it operates, which presents a risk of losing market share, revenue and profit.

This risk is managed by ensuring that high quality and innovative products are brought to market, maintaining strong relationships with key customers and ensuring the company is aware of local market conditions, trends and industry specific issues and initiatives. This enables the company to identify and address any specific matters within the overall business strategy.

STRATEGIC REPORT (continued)

Principal risks and uncertainties (continued)

People – skilled senior managers and personnel are essential in order to achieve the strategic objectives of the company. Failure to recruit and retain key staff would present significant operational difficulties for the company.

Existing staff are provided with relevant training and career progression to improve motivation. The company has a clearly defined recruitment policy which ensures that new employees meet the required standard and experience for each position. Management also seek to ensure that key personnel are appropriately remunerated to ensure that good performance is recognised.

Suppliers – the company's purchasing activities could expose it to over reliance on certain key suppliers or markets and, as a result, inflationary pricing pressure. Production is split between the UK factory and outsourced production, which allows the company to mitigate some of the risks presented by suppliers.

For the manufacturing process conducted in the UK, the company ensures that key raw materials are available from more than one source to ensure continuity of supplies. For the sourcing process, suppliers are carefully selected and the company seeks to maintain a sufficient breadth in its supplier base such that the risk remains manageable. The company also ensures that all intellectual property rights are retained and easily transferrable should an alternative supplier be required.

Financial risk management policies

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

Credit risk

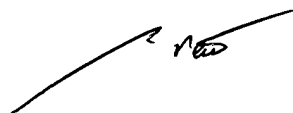
The company's principal financial assets are cash, short term deposits and trade receivables. The company's policy is to place funds on short-term deposit with highly rated institutions. Accounts receivable are monitored closely and provisions are made for bad and doubtful debts where appropriate. The 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 that is not covered by credit insurance.

Currency exchange rate risk

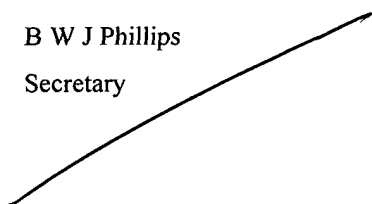
The company has exposure to foreign currency risk arising from its net investments in and cash flows from overseas subsidiaries and associates. Its policy in managing this risk is to maintain appropriate levels of net assets in the overseas companies and utilise foreign currency forward contracts. The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

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



B W J Phillips
Secretary



PORTMEIRION GROUP UK LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2014.

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.

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 page 2.

At the year end the Group had cash balances of £5.9 million and had unutilised bank facilities with available funding of £4 million. Operating cash generation was strong during the year at £3.8 million (2013: £5.5 million). Overall cash reduced by only £0.3 million despite the £3.5 million increase in inventory.

The Group sells into over 60 countries worldwide, has a spread of customers within its major UK and US markets, with adequate credit insurance cover in export markets where required. The Group manufactures approximately 48% of its products and sources the remainder from a range of third party suppliers.

After making enquiries and reviewing budgets and forecasts for the Group, the directors have a reasonable expectation that the company and its parent 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 financial statements.

DISCLOSURE IN THE STRATEGIC REPORT

The financial risk management policies and the future prospects of the company are included in the Strategic Report on pages 1 and 2.

DIVIDEND

An interim dividend of £3,311,000 was paid in the year (2013: £3,311,000). The directors do not recommend the payment of a final dividend for 2014 (2013: £nil).

DIRECTORS

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

P E Atherton
L F Bryan
M J Knapper
B W J Phillips
N H Spencer

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

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.

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 2014, 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 has received the Investment in Young People Award. 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 2014 was 30 (2013: 28).

POLITICAL CONTRIBUTIONS

There were no political contributions during the year.

AUDITORS

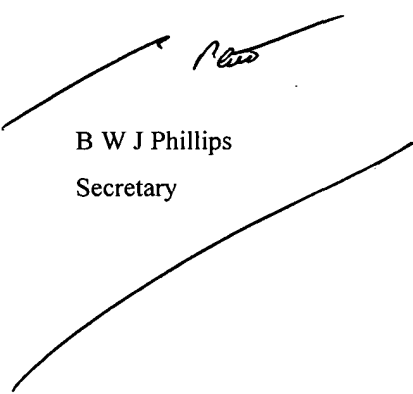
Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Mazars LLP will therefore continue in office.

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 section 418 of the Companies Act 2006.

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



B W J Phillips
Secretary

PORTMEIRION GROUP UK LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report, 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 2014 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 5, 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 2014 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.

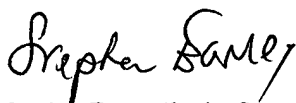
Opinion on the other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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.



Stephen Eames (Senior Statutory Auditor)
for and on behalf of Mazars LLP,
Chartered Accountants and Statutory Auditors
45 Church Street
Birmingham
B3 2RT

29 July 2015

PORTMEIRION GROUP UK LIMITED**PROFIT AND LOSS ACCOUNT****Year ended 31 December 2014**

	Note	2014 £'000	2013 £'000
Turnover	4	46,383	42,544
Operating costs	5	(39,490)	(35,601)
		<hr/>	<hr/>
Operating profit	6	6,893	6,943
Investment income – dividends received	7	-	350
Net interest payable	8	(31)	(26)
Other income	25	1	64
		<hr/>	<hr/>
Profit on ordinary activities before taxation		6,863	7,331
Tax on profit on ordinary activities	9	(1,470)	(1,287)
		<hr/>	<hr/>
Profit for the financial year	21	5,393	6,044
		<hr/> <hr/>	<hr/> <hr/>

All activities derive from continuing operations.

PORTMEIRION GROUP UK LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Profit for the financial year		5,393	6,044
Actuarial (loss)/gain on defined benefit pension scheme	25	(2,550)	1,687
Related deferred tax on actuarial loss/(gain)		510	(608)
Total recognised gains and losses for the financial year		<u><u>3,353</u></u>	<u><u>7,123</u></u>

PORTMEIRION GROUP UK LIMITED

BALANCE SHEET 31 December 2014

	Note	2014 £'000	2014 £'000	2013 £'000	2013 £'000
FIXED ASSETS					
Intangible assets	10		985		1,194
Tangible assets	11		4,888		4,924
Investments	12		1,483		1,483
			<u>7,356</u>		<u>7,601</u>
CURRENT ASSETS					
Stocks	13	8,532		6,654	
Debtors	14	17,922		17,025	
Cash at bank and in hand		5,338		5,697	
		<u>31,792</u>		<u>29,376</u>	
CREDITORS: amounts falling due within one year					
	15	<u>(6,596)</u>		<u>(5,846)</u>	
NET CURRENT ASSETS			<u>25,196</u>		<u>23,530</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			32,552		31,131
CREDITORS: amounts falling due after more than one year					
	16		(10,146)		(10,146)
Provision for liabilities	18		(258)		(278)
NET ASSETS EXCLUDING PENSION DEFICIT			<u>22,148</u>		<u>20,707</u>
Pension scheme deficit net of related deferred tax	25		(3,322)		(1,923)
NET ASSETS			<u>18,826</u>		<u>18,784</u>
CAPITAL AND RESERVES					
Called up share capital	20		30		30
Share premium account	21		1,408		1,408
Profit and loss account	21		17,388		17,346
SHAREHOLDERS' FUNDS	19		<u>18,826</u>		<u>18,784</u>

The financial statements of Portmeirion Group UK Limited, company registration number 417484, were approved and authorised for issue by the board of directors on 15th July 2015.

Signed on behalf of the board of directors


B W J Phillips

Director

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

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 3.

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 2014 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

Research expenditure is written off as incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the company is expected to benefit, which is five years. Provision is made for any impairment.

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 December 2014

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 group personal 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-transferability, 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 2014

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 £8,532,000 (2013: £6,654,000).

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 £4,153,000 (2013: £2,404,000).

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2014	2013
	£'000	£'000
Directors' emoluments		
Emoluments	994	990
Pension contributions	73	73
	<u>1,067</u>	<u>1,063</u>
Remuneration of the highest paid director	<u>300</u>	<u>261</u>
Pension contributions in respect of the highest paid director	<u>12</u>	<u>12</u>
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	5	7
Number of directors who exercised options over shares in the ultimate parent company	<u>4</u>	<u>6</u>
Average number of persons employed (including directors)		
Production operatives	384	332
Management and administration	211	212
	<u>595</u>	<u>544</u>
	£'000	£'000
Staff costs during the year (including directors)		
Wages and salaries	13,447	11,710
Social security costs	1,049	1,058
Other pension costs	981	892
	<u>15,477</u>	<u>13,660</u>

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

PORTMEIRION GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2014

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:

	2014 £'000	2013 £'000
Turnover by destination		
United Kingdom	15,939	15,435
United States	5,082	4,149
South Korea	15,077	14,783
Rest of the World	10,285	8,177
	<u>46,383</u>	<u>42,544</u>

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

5. OPERATING COSTS

	2014 £'000	2013 £'000
Change in stocks of finished goods and work in progress	(1,647)	684
Raw materials and consumables	18,327	15,478
Other external charges	6,243	4,769
Staff costs (see note 3)	15,477	13,660
Depreciation of tangible assets	863	789
Amortisation of intangible assets	227	221
	<u>39,490</u>	<u>35,601</u>

6. OPERATING PROFIT

Operating profit is stated after charging:

	2014 £'000	2013 £'000
Depreciation	863	789
Amortisation of intangible assets	227	221
Research and development	261	265
Operating lease rentals - land and buildings	628	584
- other	102	111
Profit on disposal of fixed assets	(3)	(3)
	<u></u>	<u></u>

The analysis of auditors' remuneration is as follows:

Fees payable for the audit of the company's financial statements	26	25
	<u></u>	<u></u>

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
Other taxation advisory services	22	7
All other services	-	4
	<u></u>	<u></u>
Total fees payable for other services	26	23
	<u></u>	<u></u>

PORTMEIRION GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2014

7. INVESTMENT INCOME

	2014 £'000	2013 £'000
Income from fixed asset investments	-	350

8. NET INTEREST PAYABLE

	2014 £'000	2013 £'000
Interest receivable and similar income	15	24
Interest payable and similar charges	(46)	(50)
Net interest payable	(31)	(26)

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2014 £'000	2013 £'000
United Kingdom corporation tax at 21.5% (2013: 23.25%)	1,330	1,289
Deferred taxation		
Origination and reversal of timing differences	(20)	(53)
Pension scheme timing difference	160	51
Total deferred tax	140	(2)
Tax on profit on ordinary activities	1,470	1,287

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 21.5% (2013: 23.25%). The actual tax charge for the current and previous year differs from the standard rate for the reasons set out in the following reconciliation:

	2014 £'000	2013 £'000
Profit on ordinary activities before tax	6,863	7,331
Tax on profit on ordinary activities at standard rate	1,476	1,704
Factors affecting tax charge:		
Fixed asset timing differences	(31)	25
Other timing differences	43	21
Expenses not deductible/(income not taxable)	68	(47)
Exercise of share options	(41)	(181)
Transfer pricing adjustment	(13)	(32)
FRS 17 pension timing difference	(172)	(201)
Current tax charge for the year	1,330	1,289

PORTMEIRION GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 December 2014

10. INTANGIBLE FIXED ASSETS

	Development costs £'000	Intellectual Property £'000	Total £'000
Cost			
At 1 January 2014	41	2,693	2,734
Additions	18	-	18
At 31 December 2014	59	2,693	2,752
Amortisation			
At 1 January 2014	4	1,536	1,540
Charge for the year	10	217	227
At 31 December 2014	14	1,753	1,767
Net book value			
At 31 December 2014	45	940	985
At 31 December 2013	37	1,157	1,194

11. TANGIBLE FIXED ASSETS

	Land and buildings		Plant and vehicles	Total
	Freehold £'000	Short leasehold £'000	£'000	£'000
Cost				
At 1 January 2014	3,857	760	12,460	17,077
Additions	-	-	828	828
Disposals	(2)	-	(529)	(531)
At 31 December 2014	3,855	760	12,759	17,374
Depreciation				
At 1 January 2014	1,752	539	9,862	12,153
Charge for the year	70	28	765	863
Disposals	(1)	-	(529)	(530)
At 31 December 2014	1,821	567	10,098	12,486
Net book value				
At 31 December 2014	2,034	193	2,661	4,888
At 31 December 2013	2,105	221	2,598	4,924

At 31 December 2014, the company had entered into contractual commitments for the acquisition of tangible fixed assets amounting to £699,000 (2013: £nil).

PORTMEIRION GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2014

12. INVESTMENTS

	2014 £'000	2013 £'000
Subsidiary undertakings – cost and net book value		
<i>Portmeirion Enterprises Limited</i>		
200 ordinary shares of £1 each representing 100% of the issued share capital	1,408	1,408
<i>Portmeirion Distribution Limited</i>		
100 ordinary shares of £1 each representing 100% of the issued share capital	-	-
<i>Portmeirion Services Limited</i>		
750,000 ordinary shares of £1 each representing 100% of the issued share capital less provision of £750,000	-	-
<i>Portmeirion Group Hong Kong Limited</i>		
1 ordinary share of HKD1.00 representing 100% of the issued share capital	-	-
Associated undertakings – cost and net book value		
<i>Furlong Mills Limited</i>		
2,080 ordinary shares of £1 each representing 27.58% of the issued share capital	66	66
<i>Portmeirion Canada Inc.</i>		
100 common shares representing 50% of the issued share capital	9	9
Others – cost and net book value		
<i>Dalehall Mills Limited</i>		
200 ordinary shares of £1 each representing 0.17% of the issued share capital	-	-
Cost and net book value	<u>1,483</u>	<u>1,483</u>

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 2014, Portmeirion Canada Inc. had aggregate capital and reserves of £1,836,000 (2013: £1,925,000) including the retained loss for the year of £39,000 (2013: retained loss of £3,000), and Furlong Mills Limited had aggregate capital and reserves of £4,436,000 (2013: £4,042,000) including the retained profit for the year of £395,000 (2013: £317,000).

At 31 December 2014, 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	Property company
Portmeirion Services Limited	England and Wales	Dormant
Portmeirion Group USA, Inc.*	USA	Marketing and distribution of homeware
Portmeirion Group Designs, LLC^	USA	Online marketing and distribution of homeware
Portmeirion Group Hong Kong Limited	Hong Kong	Intermediate holding company
Portmeirion (Shenzhen) Trading Company~	China	Marketing and distribution of homeware

Associated undertakings

Furlong Mills Limited	England and Wales	Suppliers of clay and glaze
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.

PORTMEIRION GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2014

13. STOCKS

	2014 £'000	2013 £'000
Raw materials and other consumables	1,819	1,588
Work in progress	595	610
Finished goods	6,118	4,456
	<u>8,532</u>	<u>6,654</u>

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

14. DEBTORS: DUE WITHIN ONE YEAR

	2014 £'000	2013 £'000
Trade debtors	7,902	7,351
Amounts owed by group undertakings	9,093	8,549
Amounts owed by associated undertakings	287	494
Other debtors	4	27
Prepayments and accrued income	636	604
	<u>17,922</u>	<u>17,025</u>

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £'000	2013 £'000
Trade creditors	4,877	3,868
Amounts owed to group undertakings	182	40
Amounts owed to associated undertakings	79	128
Corporation tax	622	690
Other taxation and social security	133	489
Other creditors	703	631
	<u>6,596</u>	<u>5,846</u>

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2014 £'000	2013 £'000
Loans from ultimate parent company	<u>10,146</u>	<u>10,146</u>

The ultimate parent company will not request repayment prior to 31 December 2015. No interest is charged on this loan.

PORTMEIRION GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2014

17. BORROWINGS

The company has two facilities:

- A £2,000,000 overdraft facility available until 29 May 2015. Interest is payable at 2.25% on the net pooled fund balance, plus bank base rate on net sterling borrowings.
- A £2,000,000 revolving credit facility available until 30 June 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 2014.

18. PROVISION FOR LIABILITIES

Deferred taxation:	£'000	
Balance at 1 January 2014		278
Credit for the year		(20)
Balance at 31 December 2014		258
	2014	2013
	£'000	£'000
Analysis of balance		
Accelerated capital allowances	101	70
Short term timing differences	(120)	(69)
Capital gains rolled over	277	277
	258	278

There is no unprovided deferred tax.

19. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2014	2013
	£'000	£'000
Profit for the financial year	5,393	6,044
Net actuarial (loss)/gain	(2,040)	1,079
Dividends paid on equity shares	(3,311)	(3,311)
	42	3,812
Opening shareholders' funds	18,784	14,972
Closing shareholders' funds	18,826	18,784

20. CALLED UP SHARE CAPITAL

	2014	2013
	£'000	£'000
Called up, allotted and fully paid		
30,100 ordinary shares of £1 each	30	30

PORTMEIRION GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2014

21. RESERVES

	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2014	1,408	17,346	18,754
Profit for the financial year	-	5,393	5,393
Net actuarial loss	-	(2,040)	(2,040)
Dividends paid on equity shares	-	(3,311)	(3,311)
At 31 December 2014	<u>1,408</u>	<u>17,388</u>	<u>18,796</u>

22. DIVIDENDS ON EQUITY SHARES

	2014 £'000	2013 £'000
Amounts recognised as distributions to equity holders in the year:		
Interim dividend for the year	<u>3,311</u>	<u>3,311</u>

The directors do not recommend a payment of a final dividend for 2014 (2013: £nil).

23. FINANCIAL COMMITMENTS

Operating lease commitments

At 31 December 2014, the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings and motor vehicles	
	2014 £'000	2013 £'000
Leases which expire:		
Within one year	229	19
In two to five years	188	407
After five years	<u>306</u>	<u>306</u>
	<u>723</u>	<u>732</u>

24. RELATED PARTY TRANSACTIONS

The transactions during the year, and outstanding balances at 31 December 2014, with associated undertakings were:

	Purchases		Sales		Debtor		Creditor	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Portmeirion Canada Inc.	-	-	2,315	2,247	287	494	-	-
Furlong Mills Limited	782	720	-	-	-	-	79	128

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 December 2014

25. PENSIONS

Defined contribution scheme

The company operates a group personal pension plan in the UK.

The total cost charged to the profit and loss account in respect of the defined contribution scheme of £981,000 (2013: £892,000) represents contributions payable to this scheme by the company at rates specified in the rules of the scheme.

At 31 December 2014, contributions for the defined contribution scheme of £442,000 (2013: £232,000) 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. 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 a group stakeholder plan. Membership in this scheme was transferred to a group personal pension plan during 2013.

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 2014 by qualified actuaries.

The major assumptions used by the actuaries were:

	2014	2013	2012
Rate of increase in pensions in payment:			
Post 06.04.88 GMP	3.00%	3.00%	3.00%
Pre 06.04.97 excess over GMP	5.00%	5.00%	5.00%
Post 06.04.97 pension	3.20%	3.50%	2.90%
Rate of revaluation of pensions in deferment	2.20%	2.60%	2.10%
Rate used to discount scheme liabilities	3.60%	4.70%	4.30%
Inflation assumption:			
RPI	3.30%	3.70%	2.90%
CPI	2.20%	2.60%	2.10%
Life expectancy at 65 for a member:			
Currently aged 65 - male	22.4	21.4	22.1
Currently aged 45 - male	24.1	23.3	24.1
Currently aged 65 - female	24.6	24.0	24.6
Currently aged 45 - female	26.5	25.8	26.5

The most significant actuarial assumption for the determination of the defined benefit obligation is the discount rate. If the discount rate was 0.1% higher, the defined benefit obligation would reduce by £650,000 (2013: £410,000).

PORTMEIRION GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2014

25. PENSIONS (continued)

Fair value of scheme assets and present value of scheme liabilities:

	2014 Fair value £'000	2013 Fair value £'000	2012 Fair value £'000
Equities	4,036	3,886	12,670
Bonds	5,895	4,918	4,133
Gilts	8,348	6,783	-
Diversified growth funds	3,833	3,637	-
Insured annuities	6,185	5,878	6,358
Cash	51	106	497
Total fair value of assets	28,348	25,208	23,658
Present value of scheme liabilities	(32,501)	(27,612)	(28,613)
Deficit in the scheme	(4,153)	(2,404)	(4,955)
Related deferred tax	831	481	1,140
Net pension liability	(3,322)	(1,923)	(3,815)

Analysis of the amount charged to operating profit:

	2014 £'000	2013 £'000
Current service cost	-	-
Past service cost	-	-
	-	-

Analysis of the amount credited to other income:

	2014 £'000	2013 £'000
Expected return on pension scheme assets	1,273	1,275
Interest on pension scheme liabilities	(1,272)	(1,211)
Amount credited to other income	1	64

PORTMEIRION GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2014

25. PENSIONS (continued)

Analysis of the actuarial (loss)/gain recognised in the statement of total recognised gains and losses:

	2014 £'000	2013 £'000
Actuarial return less expected return on pension scheme assets	2,166	379
Changes in assumptions underlying the present value of the scheme liabilities	(4,716)	1,308
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses	(2,550)	1,687

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

	2014 £'000	2013 £'000
At 1 January	27,612	28,613
Service cost	-	-
Interest cost	1,272	1,211
Actuarial losses and (gains)	4,716	(1,308)
Benefits paid	(1,099)	(904)
At 31 December	32,501	27,612

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

	2014 £'000	2013 £'000
At 1 January	25,208	23,658
Expected return on scheme assets	1,273	1,275
Actuarial gains and (losses)	2,166	379
Contributions by the employer	800	800
Benefits paid	(1,099)	(904)
At 31 December	28,348	25,208

History of the deficit in the scheme and experience adjustments:

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Present value of defined benefit obligations	(32,501)	(27,612)	(28,613)	(26,286)	(25,464)
Fair value of scheme assets	28,348	25,208	23,658	21,418	21,162
Deficit in the scheme	(4,153)	(2,404)	(4,955)	(4,868)	(4,302)
Experience adjustment on scheme assets	2,166	379	1,260	(1,384)	40
<i>Percentage of scheme assets</i>	8%	2%	5%	6%	0%
Experience adjustment on scheme liabilities	601	-	(326)	427	-
<i>Percentage of scheme liabilities</i>	2%	-	1%	2%	-

The estimated amount of contributions expected to be paid to the scheme during the current financial year is £937,000 (2014: £800,000). There were no contributions due but unpaid at 31 December 2014.

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 £6,513,000 (2013: loss of £3,963,000).

PORTMEIRION GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2014

26. SHARE BASED PAYMENTS

The Group operates three share option schemes and one long-term incentive scheme for senior managers and directors of the company.

The company recognised total expenses recharged by its parent company of £194,000 and £141,000 related to equity share-based payment transactions in 2014 and 2013 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:

	2014	2014	2013	2013
	Number of	Weighted	Number of	Weighted
	share	average	share	average
	options	exercise	options	exercise
		price		price
		£		£
Outstanding at 1 January	61,000	4.842	292,500	3.770
Granted during the year	-	-	-	-
Lapsed during the year	-	-	(17,500)	4.884
Surrendered during the year	-	-	-	-
Exercised during the year	(18,000)	4.763	(214,000)	3.373
Outstanding at 31 December	43,000	4.875	61,000	4.842
Exercisable at 31 December	-	-	2,000	3.745

The options outstanding at 31 December 2014 had a weighted average remaining contractual life of 7.3 years (2013: 8.0 years).

All options outstanding at 31 December have an exercise price of £4.875.

No options were granted in the current or prior years.

PORTMEIRION GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2014

26. SHARE BASED PAYMENTS (continued)

b) The Portmeirion Group 2010 Deferred Incentive Share Option Plan

Options are granted to Portmeirion Group PLC 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:

	2014	2014	2013	2013
	Number of	Total	Number of	Total
	share	exercise	share	exercise
	options	price	options	price
		£		£
Outstanding at 1 January	33,143	£6	64,103	£8
Granted during the year	1,734	£3	3,303	£2
Lapsed during the year	-	-	(2,365)	-
Surrendered during the year	-	-	-	-
Exercised during the year	(18,232)	£2	(31,898)	£4
	<u>16,645</u>	<u>£7</u>	<u>33,143</u>	<u>£6</u>
Outstanding at 31 December				
	<u>16,645</u>	<u>£7</u>	<u>33,143</u>	<u>£6</u>
Exercisable at 31 December	-	-	-	-

The options outstanding at 31 December 2014 had a weighted average remaining contractual life of 1.0 years (2013: 1.1 years). In 2014, options were granted on 15 April. The aggregate of the estimated fair value of those options was £12,321. In 2013, options were granted on 19 April. The aggregate of the estimated fair value of those options was £17,855.

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

	2014	2013
Weighted average share price at date of grant	£7.800	£6.050
Weighted average exercise price	Nil	Nil
Expected volatility	17%	30%
Expected life	3.125 years	3.125 years
Risk-free rate	1.22%	0.42%
Expected dividend rate	3.08%	3.60%

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.

PORTMEIRION GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2014

26. SHARE BASED PAYMENTS (continued)

c) The Portmeirion Group 2012 Approved and Unapproved Share Option Plans

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 option remains 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:

	2014 Number of share options	2014 Weighted average exercise price £	2013 Number of share options	2013 Weighted average exercise price £
Outstanding at 1 January	151,000	6.100	-	-
Granted during the year	151,000	7.400	155,000	6.100
Lapsed during the year	(8,000)	6.750	(4,000)	6.100
Surrendered during the year	-	-	-	-
Exercised during the year	-	-	-	-
Outstanding at 31 December	<u>294,000</u>	<u>6.750</u>	<u>151,000</u>	<u>6.100</u>
Exercisable at 31 December	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The options outstanding at 31 December 2014 had a weighted average remaining contractual life of 8.8 years (2013: 9.3 years). In 2014, options were granted on 30 April. The aggregate of the estimated fair value of those options was £165,776. In 2013 options were granted on 2 May. The aggregate of the estimated fair value of those options is £235,132.

The range of exercise prices for the options outstanding at 31 December is from £6.100 to £7.400.

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

	2014	2013
Weighted average share price at date of grant	£7.350	£6.050
Weighted average exercise price	£7.400	£6.100
Expected volatility	24%	38%
Expected life	4 years	6.5 years
Risk-free rate	2.20%	0.98%
Expected dividend rate	3.27%	3.60%

Expected volatility was determined by calculating the historical volatility over the previous 4 years. The expected life used in the model is based upon management's best estimate of life using historic experience as a benchmark.

27. ULTIMATE PARENT COMPANY

The ultimate parent and controlling company is Portmeirion Group PLC, a company incorporated in the UK and registered in England and Wales. Copies of the Group financial statements can be obtained from the Company Secretary at Portmeirion Group PLC, London Road, Stoke-on-Trent, Staffordshire, ST4 7QQ.

The largest and smallest groups into which the results of the company are consolidated are that of Portmeirion Group PLC.