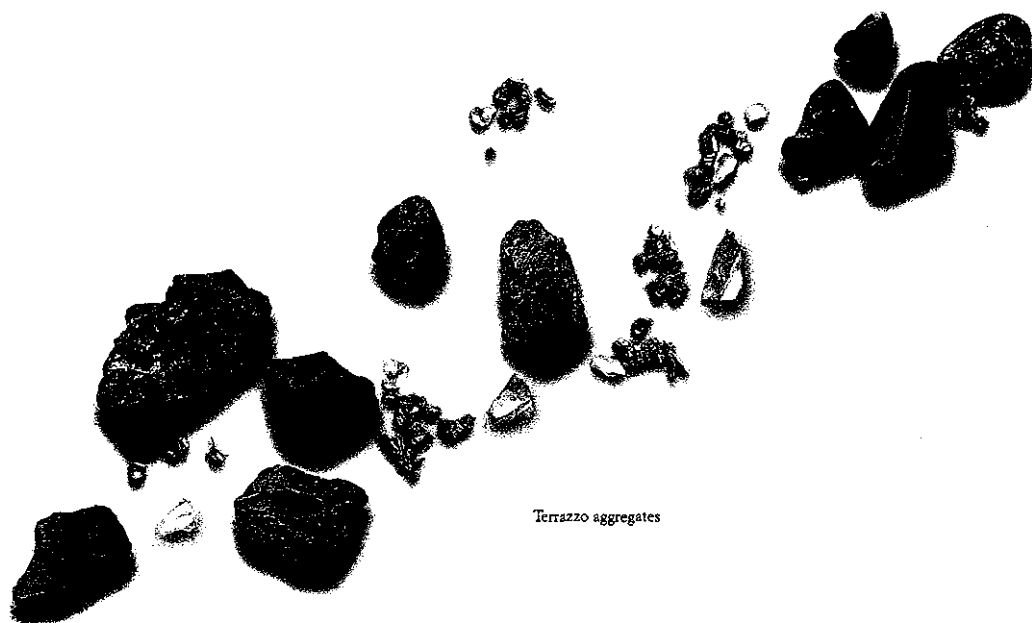




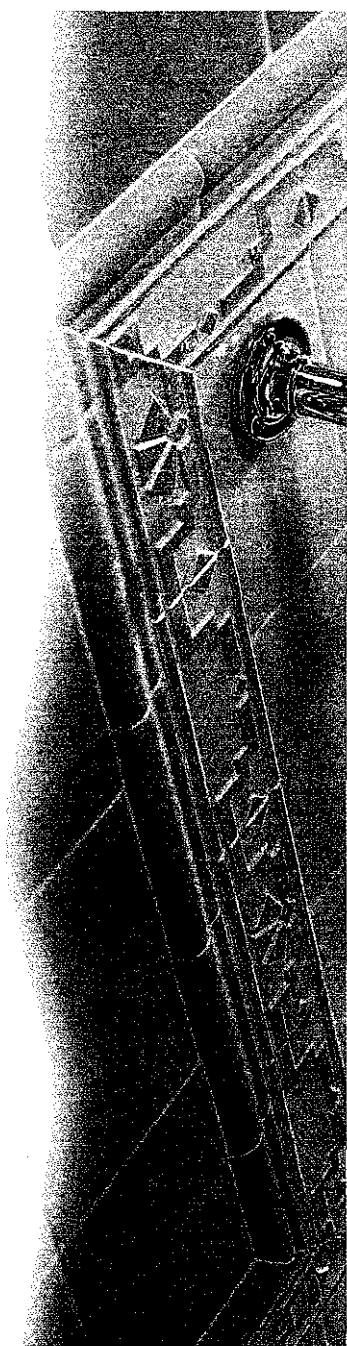
Terrazzo aggregates

the Creation of Terrazzo

The wearing face of the tile is traditionally created using marble aggregates, cements and pigments, which are mixed with water and mechanically vibrated in a mould to remove any air pockets. The tile is then hydraulically pressed on to a semi-dry backing of cements and crushed aggregates to form the tile. The fresh tiles are removed and cured in heat chambers to increase their strength. The tile face is then polished by a number of diamond headed polishing machines to reveal the true beauty of the aggregates within the tile. Finally, the terrazzo is despatched with this standard factory polished finish for final grinding, polishing and finishing on site. We are currently experimenting with new, exciting surface elements to bring a new dimension to terrazzo design.



Contents



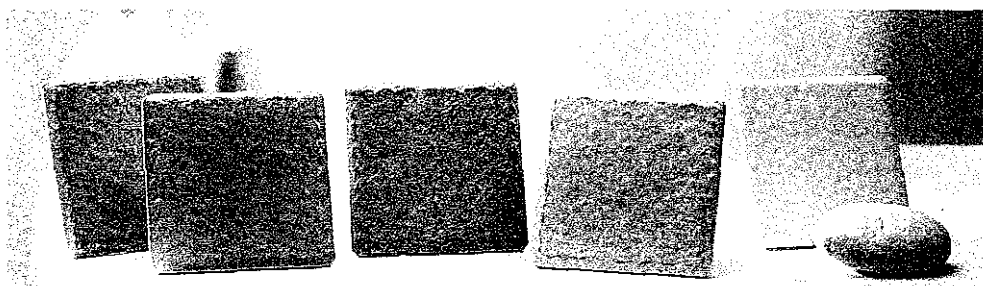
Cairo from Pilkington's Atelier collection

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2282021

Key Features

- 42% earnings per share growth (diluted)
- 20% increase in operating profit before taxation, exceptional & restructuring costs
- 25% gearing: down from 37%
- 9% sales growth
- increase in total dividend from 0.5p to 0.6p

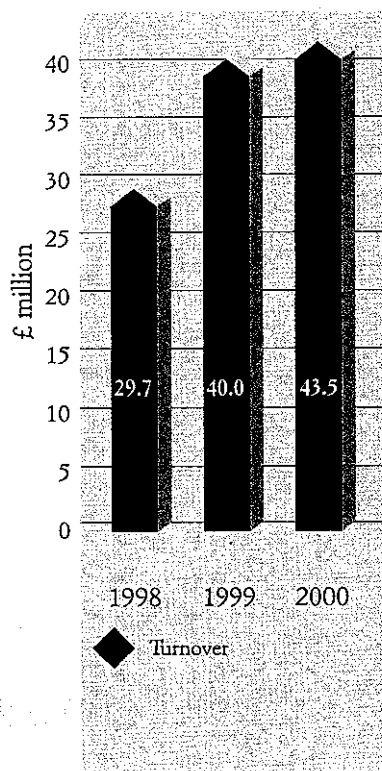


Rustics palette from Pilkington's Antica collection

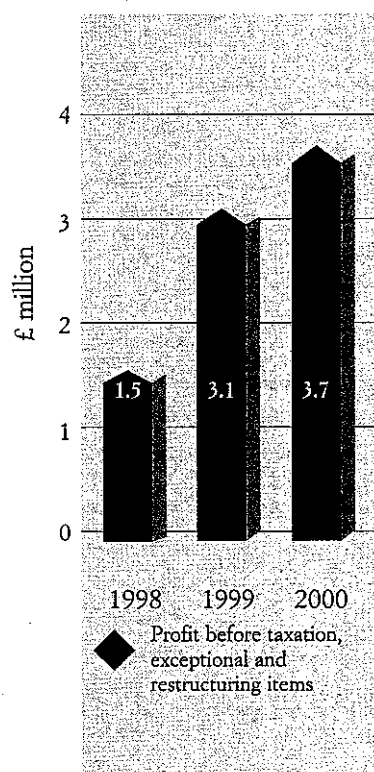
- terrazzo activities now achieving good profitability
- significant internal investment planned for ceramic wall tile activity
- management succession plans successfully implemented
- reorganisation of senior management structure now complete
- share buy-back of 6.5% of ordinary shares completed, value £1.0 million

Financial Highlights for the year ended 31 March 2000

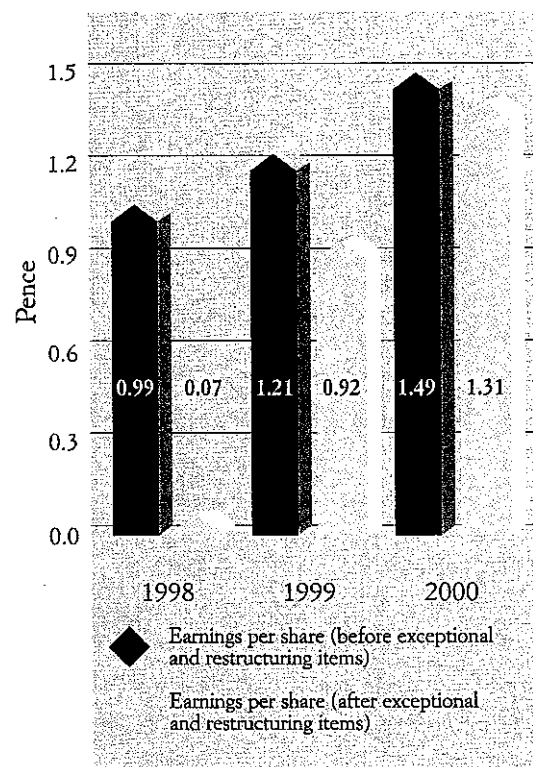
Turnover



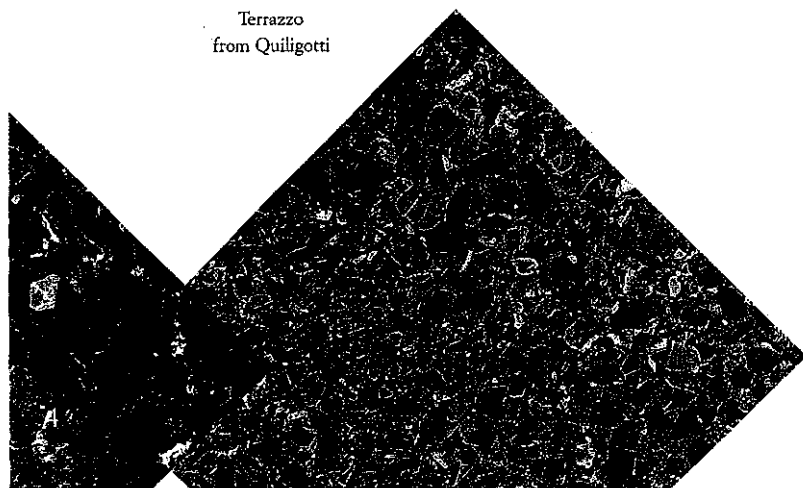
Profit

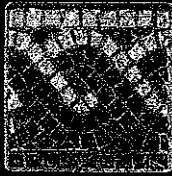


Earnings per share



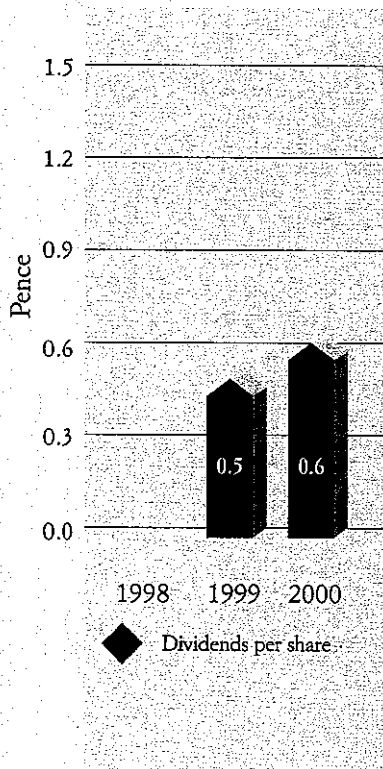
Terrazzo
from Quiligotti



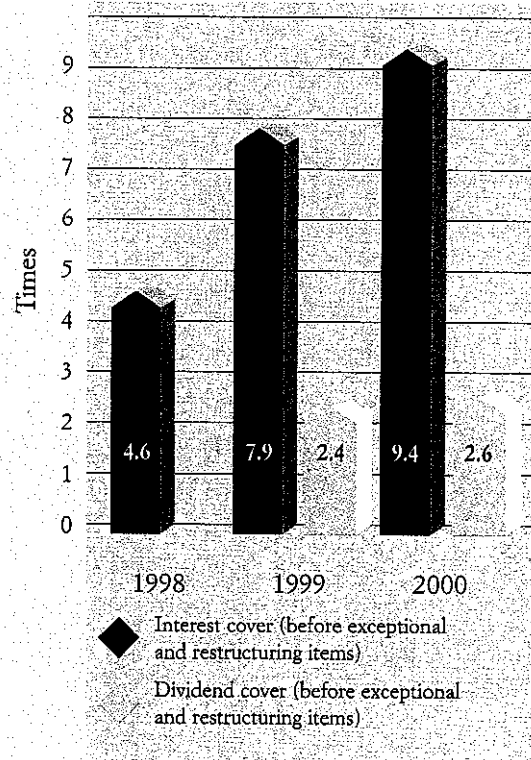


Mosaic Frieze
from Pilkington's Antica collection

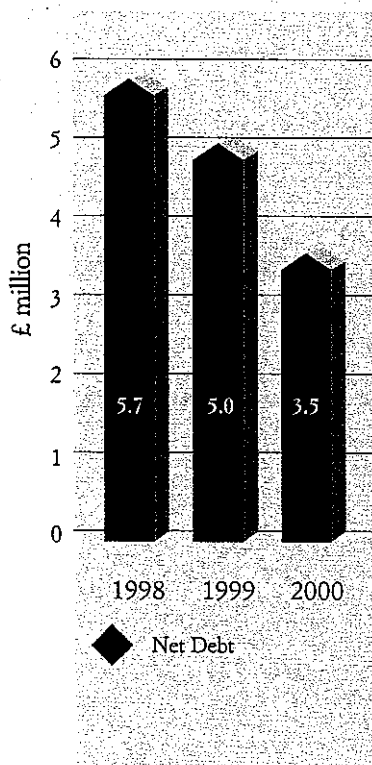
Dividends



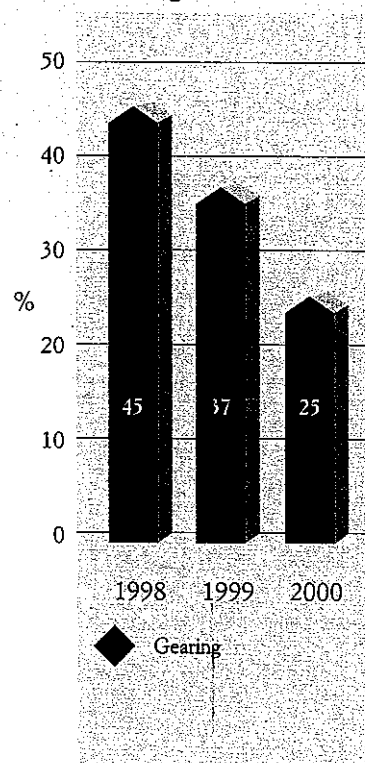
Interest & dividend cover

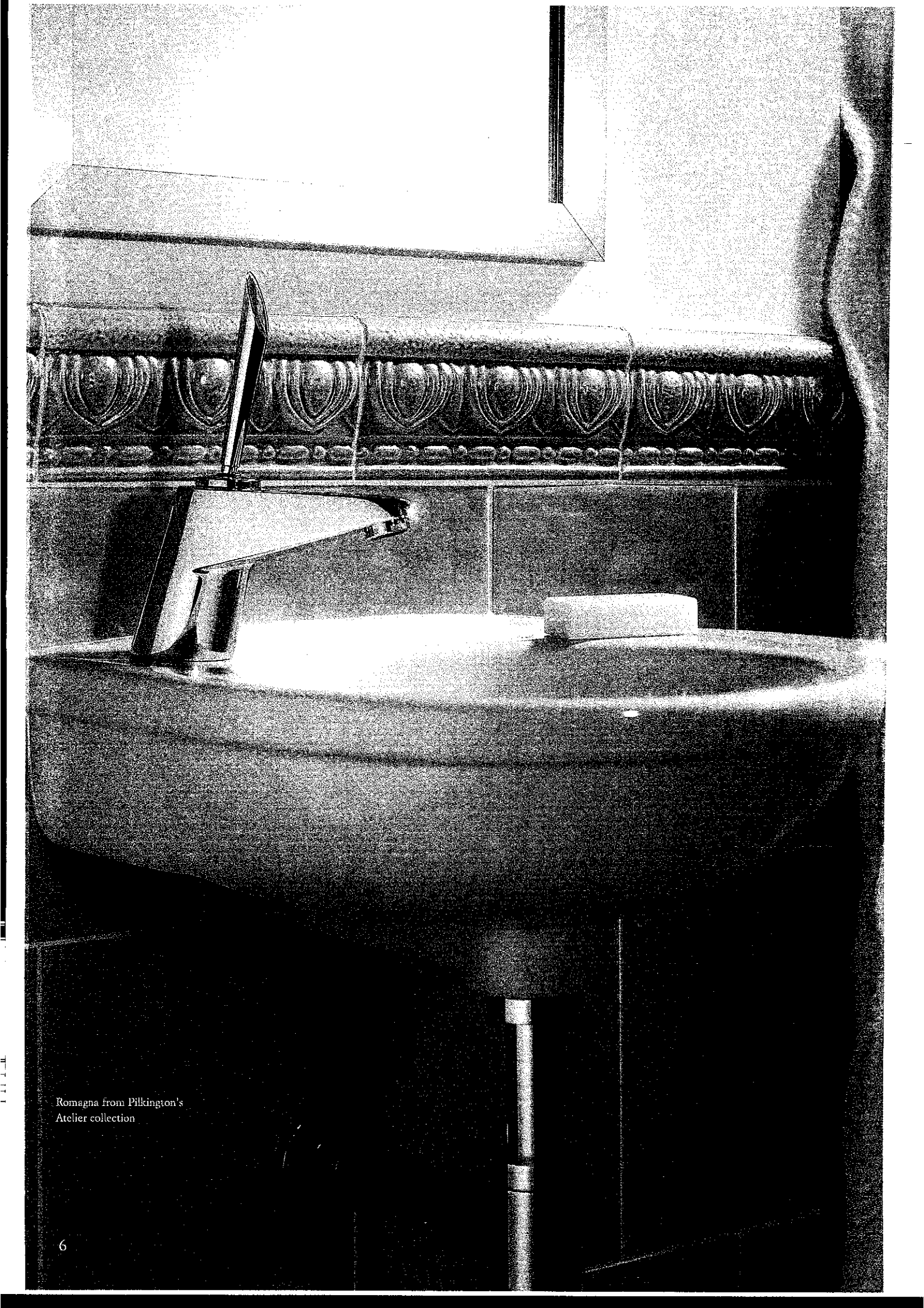


Debt



Gearing





Romagna from Pilkington's
Atelier collection

Group Profile

A DESIGN-LED MANUFACTURING AND SERVICE GROUP OFFERING HIGH QUALITY WALL AND FLOOR SOLUTIONS FOR THE HOME, OFFICE, COMMERCIAL AND INDUSTRIAL ENVIRONMENTS

Pilkington's
CERAMIC TILES

Pilkington's are a leading manufacturer and design innovator in ceramic floor and wall tiles, with a broad portfolio of products in many sectors including domestic, architectural and housebuilding. Production is carried out at a 20 acre site in Manchester and an 8 acre site in Poole. This is supplemented by supplier partnerships with other leading European companies.

Fossils from the Antica range (Right)



Woolliscroft

Woolliscroft tiles have been manufactured for over 150 years in the UK. Clays are supplied from the group's own quarry in Dorset. Unglazed floor tiles for commercial and industrial environments include the market leading and unique Versatile brand and also the renowned Atlas industrial floor tiles.

Atlas range at Selfridges, Manchester (Below)



Pilkington's
Tiles Group plc



Quiligotti
ACCESS FLOORING

Quiligotti Access Flooring creates raised floor systems that incorporate access to building services concealed below the floor surface. Systems range from the cost effective Microfloor brand through to high specification steel encapsulated panels with factory bonded finishes in ceramics, hardwood and natural stone.

National Glass Centre (Above)

Quiligotti
TERRAZZO TILES

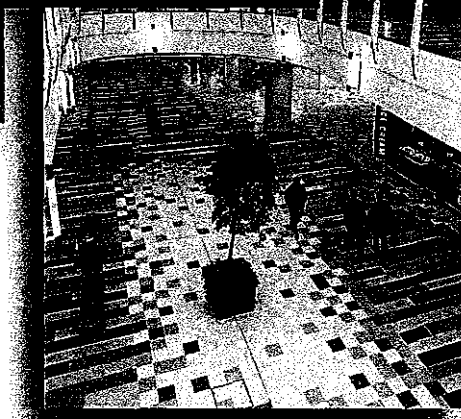
Quiligotti introduced Terrazzo manufacture to the UK and remain the clear market leader today. A new factory produces the product long famed for its durability in supermarkets, shopping malls, airports, railway stations and other heavy foot traffic public spaces. Investment in design, development and marketing is driving Quiligotti Terrazzo into new areas of use, capturing the imagination of a new generation of designers and specifiers.

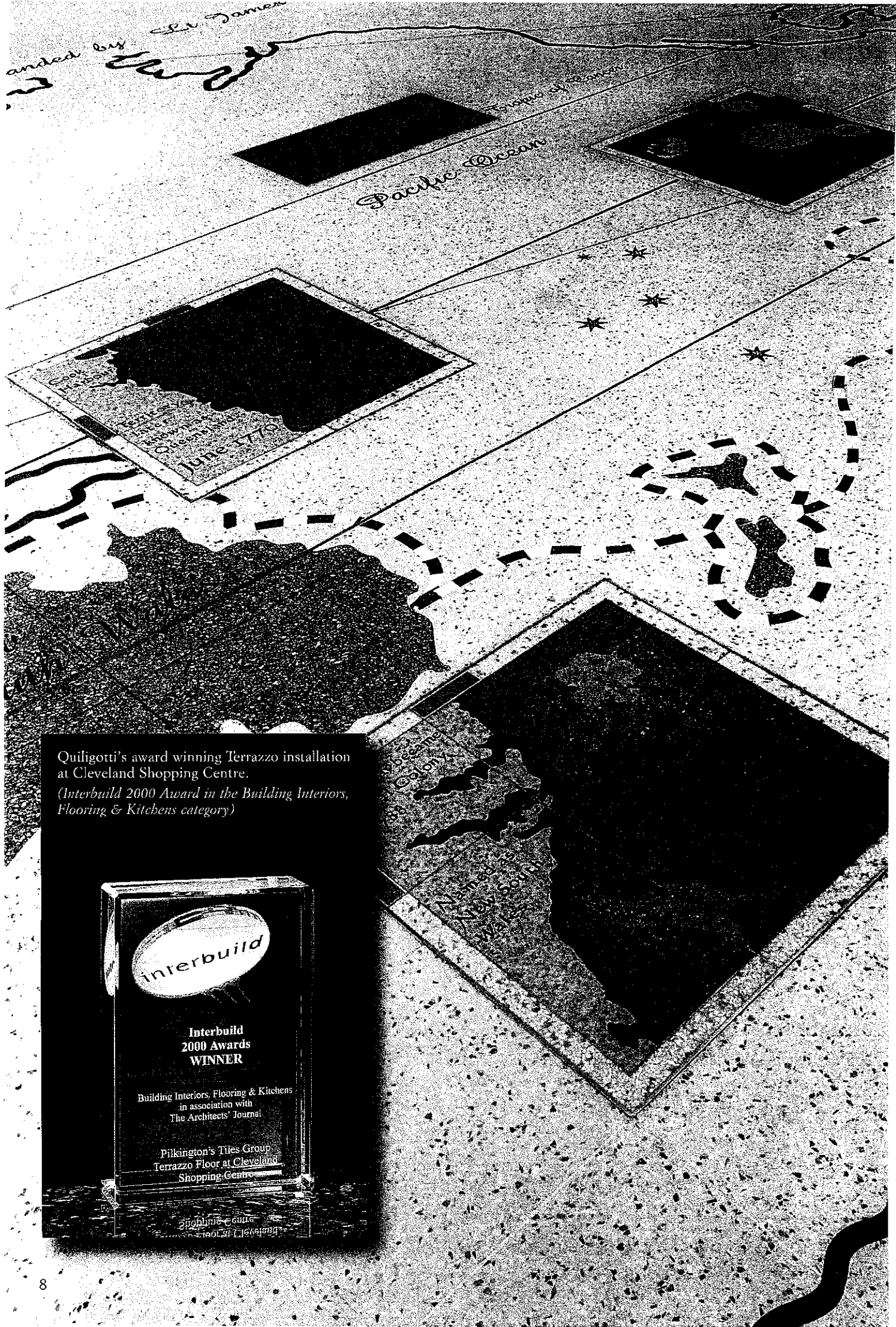
Braehead Shopping Centre (Above)

Quiligotti
CONTRACT FLOORING

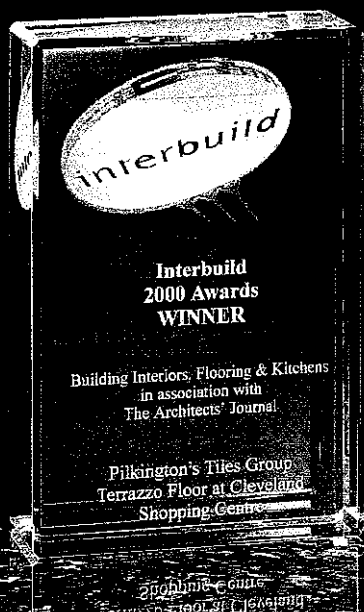
Specialists in the installation of hard flooring, the company is particularly skilled in projects that are most demanding by way of their large scale or difficult site conditions and timescale.

Braehead Shopping Centre (Left)





Quiligotti's award winning Terrazzo installation
at Cleveland Shopping Centre.
(Interbuild 2000 Award in the Building Interiors,
Flooring & Kitchens category)



Board of Directors

Executive Directors



MARY-LORRAINE
HUGHES

Appointed Group Chief Executive
on 1 January 2000.

She was previously
Chief Executive of Portmeirion
Potteries and prior to that held
a number of senior-executive
positions within
Courtaulds Textiles plc.
Currently non-executive
Director of Staffordshire
Building Society and in 1996
was a Veuve Cliquot
Businesswoman
of the Year finalist.
Age 48.



DAVID BOOTH

Appointed Group
Financial Director in July 1997
and Company Secretary
in March 1998.

He was previously
responsible for a number
of other companies within
the BTR Group including
Pilkington's Tiles Ltd
as Financial Director.

Age 52.



IAN CROWTHER

Appointed Group
Commercial Director
on 1 March 2000.

He was previously
Managing Director of
Pilkington's Tiles Ltd and
Quilligotti Terrazzo Ltd
and has worked within the tile
industry for a number of years.
Previous experience working
for Forbo-Nairn. Currently a
Director of The Tile Association
and Chairman of their
marketing committee.

Age 44.

Non-Executive Independent Directors



TONY PALMER

Appointed Chairman of
Pilkington's Tiles Group plc
in August 1998 and
is the Chairman of the
Remuneration and Audit
Committees. Non-executive
Director of a number of
public and private companies
including Berkeley Group plc,
High-Point Rendel Group plc
and the Building Research
Establishment.

Age 63.



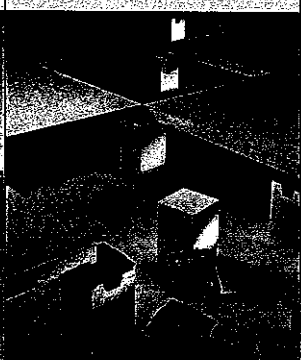
RAY McENHILL

The Senior Independent
Director was appointed
a non-executive Director
in July 1997. A member
of the Remuneration
and Audit Committees.
An executive Director
of Northern Leisure plc
and a Director of several
private companies.
Formerly Chief Executive
of National Express.

Age 60.



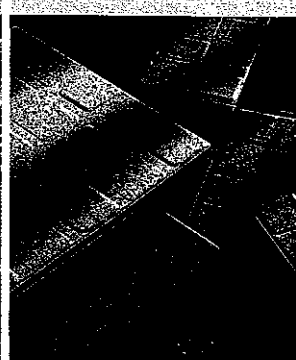
Mexicana from Pilkington's
Atelier collection



Access Flooring's
Microfloor system



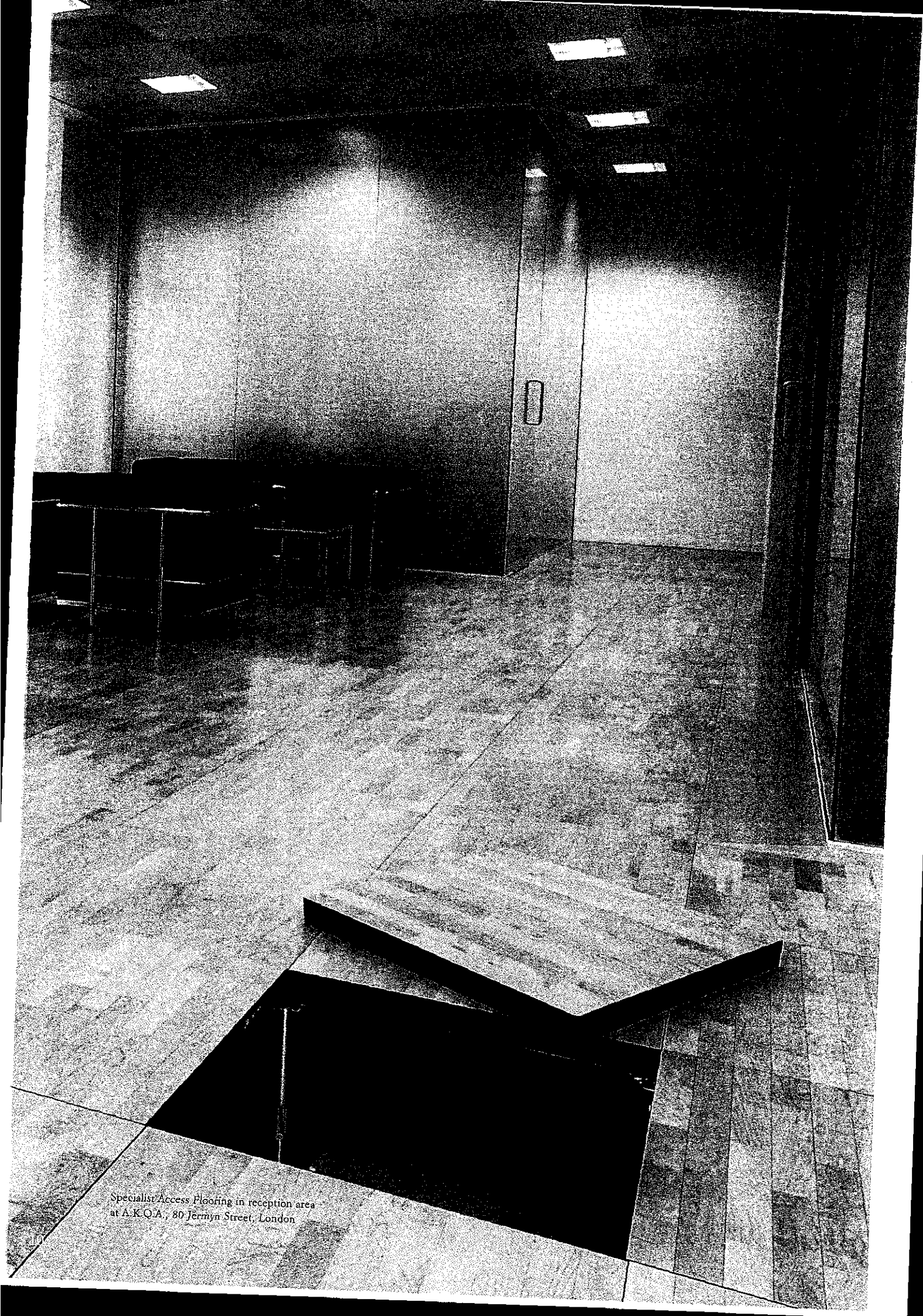
Terrazzo at
Titanic Restaurant, London



Multiversatile collection
from Woolliscroft



Terrazzo at Westminster
underground station



Specialist Access Flooring in reception area
at A.K.Q.A., 80 Jermyn Street, London

Chairman's Statement

"PRE-TAX PROFIT GROWTH OF 20% BEFORE EXCEPTIONALS IN A YEAR OF SENIOR MANAGEMENT CHANGES AND SOME OPERATIONAL UPHEAVAL WAS AN EXCELLENT ACHIEVEMENT"

I am pleased to be able to report that our strategy of enhancing earnings through sales growth and improving operating margins has made good progress. Profit before tax, exceptional and restructuring items rose by an impressive 20%. Sales rose by 8.8%.

Earnings per share increased by 42.4% as a result of the profits growth, the share buy-back and increasing utilisation of brought forward tax losses within subsidiary companies together with much lower exceptional and restructuring items.

Towards the end of the year the Board decided it was appropriate to buy back 6.5% of our issued ordinary share capital. Despite this, and our reinstatement of dividends, it is pleasing to report that cash generation in the year has enabled us to continue to reduce gearing for the third year in a row, to 25% this year (1999: 37%).

RESULTS

Turnover increased to £43.5 million (1999: £40.0 million). Both our manufacturing companies, Pilkington's Tiles and Quiligotti Terrazzo, provided growth in sales.

Terrazzo contracting activity was high, largely due to the completion of the Braehead shopping centre contract, but Access Flooring's activity was reduced as a consequence of our deliberate pursuit of business with improved margins.

The principal benefit to profit was achieved through the turn-round in the performance of our terrazzo manufacturing plant. The expected yield and cost improvements materialised although there are still opportunities for further savings open to us in the coming year. We are now focusing on improving terrazzo sales with new

initiatives in product innovation, product presentation and sales management.

Access Flooring profit also improved thanks to sound management concentrating on the more profitable opportunities.

The rationalisation undertaken following the Woolliscroft acquisition has now been completed. During the year production was successfully relocated to our Poole factory, the product offer was thoroughly reviewed and a number of ranges withdrawn. In total, benefit in the year from the acquisition was £0.4 million, and we expect this will increase now that the manufacturing operations are fully integrated.

MANAGEMENT

During the year the Board reviewed management succession and in view of the approaching retirement age of our former Chief Executive, Brian Thompson, put in hand recruitment of a new Chief Executive. We are pleased that Mary-Lorraine Hughes was appointed as Group Chief Executive on 1 January 2000. She has considerable executive experience having held senior positions at Portmeirion Potteries plc and with Courtaulds Textiles, and the Board is confident that she brings a new positive dimension to management of the Group.

Following the full integration of the Quiligotti businesses to our Manchester site we have also thought it appropriate to review our management structure. As part of this, Ian Crowther has joined the Board as Commercial Director.

Ian has extensive industry knowledge and sales and marketing experience, and it is appropriate

Chairman's Statement

that these skills are represented at Board level. Other changes to our management structure are outlined in the Chief Executive's Review.

STRATEGY

Our strategy remains to promote earnings improvement through organic growth whilst seeking earnings enhancing acquisitions in related business activities. It is anticipated that organic growth will result from:

- capital investment in our wall tile production facility to meet the demand in this fashion-led sector;
- generating more activity in terrazzo tile, particularly by promoting innovative product developments;
- introducing new products through the global sourcing of complementary product;
- greater emphasis on design, sales, marketing and logistics;
- improving customer service to encourage greater volume repeat business;
- exploring new and different routes to market.

A number of acquisition opportunities were explored during the year but in the absence of clear benefit to earnings growth we have not thought it appropriate to pursue these at this time. Any acquisition would have to enhance or complement existing operations and offer a real step change in activity and may come from a related manufacturing enterprise offering additional product and/or routes to market.

A number of our shareholders have suggested to us for some time that we embark on a share buy back. The climate against small companies has not abated, the Board was aware of the earnings enhancing benefits of a buy-back together with the cashflow benefits of a reduction in dividends cost and were convinced there were sufficiently strong arguments to proceed with a buy-back in early March.



DIVIDEND

In the previous financial year it was pleasing that we were able to restore payment of dividends and declared a final dividend of 0.5 pence. During this year we were able to declare an interim of 0.2 pence and we are now proposing a final of 0.4 pence making a total of 0.6 pence for the year.

We will continue to pursue a progressive, but prudent, dividend policy.

BALANCE SHEET

Total borrowings reduced by £1.5 million in the year despite payment of last year's final dividend and this year's interim dividend totalling £1.4 million, plus the cost of the share buy-back of £1.0 million.

Cash generation remains one of our key long term objectives although our internal investment plans, as set out in the Financial Director's Review, will utilise internally generated funds over the next 12 months.

Chairman's Statement

APPOINTMENT OF ADVISERS

I am pleased to announce that from May 2000 we will be working with Close Brothers Corporate Finance as our financial adviser and Old Mutual Securities (formerly Albert E Sharp) as stockbroker.

EMPLOYEES

I am once again grateful for the contribution made by everyone throughout the Group over the last year. It is the breadth of their combined understanding of our business and individual commitment that enables your Company to prosper in a challenging business environment.

STATEMENT OF PROSPECTS

Pre-tax profit growth of 20% before exceptionals in a year of senior management changes and some operational upheaval was an excellent achievement.

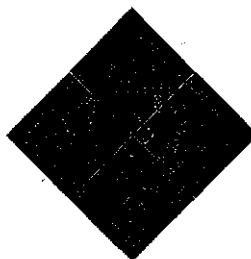
Although we cannot necessarily expect to repeat that level of growth in the current year, the prospects for improved profitability remain very encouraging. We will again be concentrating on maximising margins by scrutinising costs and being selective on new contracts.

The new financial year, in line with our industry sector, has started slowly but there are considerable opportunities for sales growth arising from some exciting and innovative new product initiatives. In addition, we will continue to pursue potential acquisitions as and when the opportunities arise. Your Board believe that the Company will continue to pursue worthwhile earnings growth.



TONY PALMER

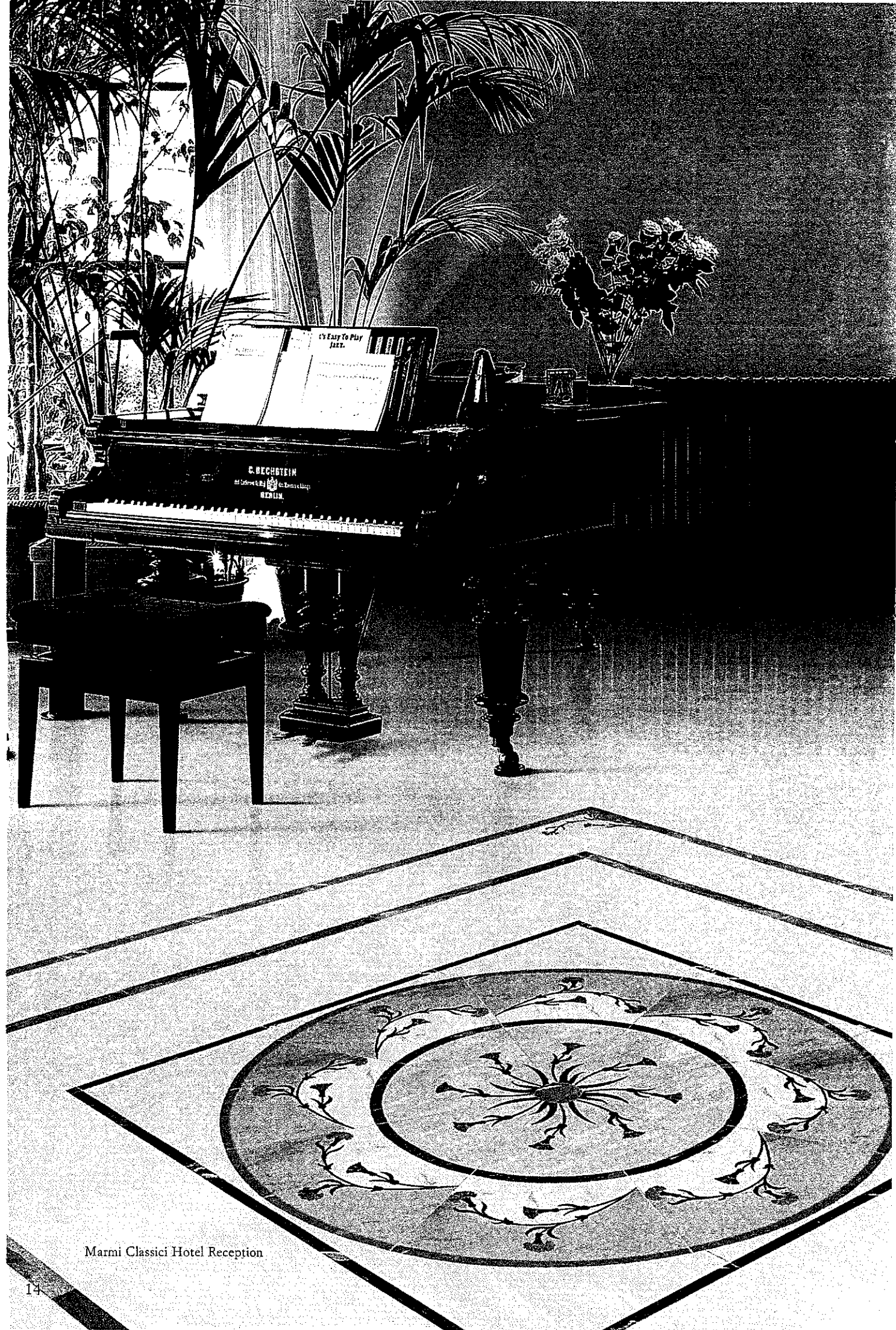
Chairman



Azaria 4 tile panel
from Pilkington's Artesan collection

"I AM ONCE AGAIN GRATEFUL FOR THE CONTRIBUTION
MADE BY EVERYONE THROUGHOUT THE GROUP
OVER THE LAST YEAR"





Marmi Classici Hotel Reception

Chief Executive's Review

INTRODUCTION

First of all I would like to thank my colleagues for having welcomed me so warmly into the Company. Their support is invaluable.

Since taking up my new role in January 2000, I have been evaluating the Group's positioning and prospects. I am delighted to have found a real commitment to design excellence and technical innovation supported by a belief in consistently high quality product and service. Capitalising on established strengths whilst building on Group synergies is a formula for real progress.

I am particularly pleased that new management positions, to which I refer in the section on changes to our organisational structure, are being overwhelmingly filled from within by strong internal candidates. The commitment to the business, willingness to embrace change, and eagerness to actively develop the Group are striking. This deserves recognition and augurs well for the future.

CORPORATE OBJECTIVES

Our core objective is to unite the whole organisation in a customer-focused approach. We intend to achieve this by:

- developing our position as a leading edge design and innovative business which both anticipates and sets market trends;
- orientating the Group to being market-led by adapting a total focus on customer needs, served by re-energised and authoritative sales, marketing and delivery functions;
- delegating clearly defined responsibility with close accountability;
- capitalising on e-commerce opportunities and to ensure they are fully exploited;
- reducing our cost base to increase our competitiveness through selective capital and revenue expenditure;
- optimising our funding through renewed emphasis on profitability, cash generation, and cost control to internally finance our expansion plans.

CHANGES TO OUR ORGANISATIONAL STRUCTURE

The Group management structure, a product of previous acquisitions, needed to be reviewed in light of current market pressures and dynamics.

Historically, each individual business had been run independently, focused largely on its specific product, with limited regard for the synergies between the products and services available across the Group.

We serve a variety of market sectors including multiple and independent retailers and distributors, housebuilders, tile fixers, architects and specifiers. Each has particular requirements in terms of liaison, distribution systems and technical support but share the same need for high calibre service, design and product quality. The Group intends to offer hard floor and wall solutions by incorporating various elements of our offer tailored to individual needs. The specific demands of each market sector are to be addressed by specialist design, technical and support teams led by 'sector champions': sales people who will manage our relationships with key customers and clients.

This has necessitated the creation of a Group wide commercial team of design, marketing, sales and logistics personnel led by the Group Commercial Director, a new Main Board position.

Recently appointed heads of both retail and commercial sales will focus their teams' attention on the needs of the retail/housebuilder sector and commercial/architectural sector respectively.

Just after the end of the financial year, the management of ceramic and terrazzo tile production has been reorganised to ensure more cost-effective and flexible process control. This will allow ready alignment with the new advanced wall tile production facility, currently under construction, which is due to be commissioned in Spring 2001.

Our two contracting businesses, specialists in the supply and fixing of predominantly terrazzo tiles and raised access flooring, are to be brought under the control of one person.

These changes reflect a shift in resources to reorientate the business to a market focused, coherent Group energised to anticipate the needs of individual customers.

Chief Executive's Review

OPERATING REVIEW

Ceramics

	2000 £'000	1999 £'000
Sales	28,483	26,095
Profit before exceptionals, interest and tax	3,311	3,488

At the half year we reported that profit at Pilkington's Tiles had been held back by one-off costs relating to changes in distribution channels and product merchandising. We have been working on many initiatives to secure growth and it is heartening that in the second half of the year ceramics had a much stronger performance. A number of actions were taken which reduced our cost base. Woolliscroft Tiles has been successfully absorbed into our operations and assisted better utilisation of our Poole manufacturing facilities.

The dynamics of our market place are changing: in response we are developing closer working relationships with key customers, further developing our design and marketing as tools of competitive advantage and also strengthening our logistics.

We are increasingly outsourcing new products to complement our own manufactured products and in particular have added new floor tile ranges. This policy of widening our portfolio both in terms of product and price points will be increasingly exploited.

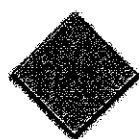
Significant range introductions are planned during the year with products designed using our knowledge of market trends and consumer taste and we expect further growth of sales and profits.

Terrazzo

	2000 £'000	1999 £'000
Sales	4,727	4,663
Profit before exceptionals, interest and tax	800	(126)

Shareholders will be aware that last year results were disappointing and that commissioning difficulties with the new factory following relocation of the business from Hazel Grove meant we were unable to achieve worthwhile returns. It is pleasing to report that we have made solid progress and the factory is performing well and achieving performance targets. We suffered some residual one off costs in the business but good returns are now being generated.

Management emphasis is now directed towards design, sales and marketing so we can secure enhanced returns. For the first time in many years we are applying skills aimed at developing the visual appeal of terrazzo for architects, clients and designers to add to the well-known hard wearing and seamless floor qualities. We have introduced the new Fusion range, supported with quality promotional material, and a number of new innovative design ideas are currently being explored.



Architectural plain tiles from Pilkington's Matrix collection

Chief Executive's Review

Quiligotti Contracts Ltd

	2000 £'000	1999 £'000
Sales	8,742	7,146
Profit before exceptionals, interest and tax	503	567

The year turned out to be somewhat busier than we had planned as new orders ahead of forecasts were secured. The largest individual job successfully completed was the £2 million Braehead shopping centre, one of the larger terrazzo installations of recent years. We have also started to offer installation of other tile products, sourced from within the Group. Contracting remains an important arm of our activities although we continue to work closely with other installers where we are confident of mutual support. Around 20% of terrazzo manufactured by us is installed by our own contracting company, the balance by external customers.

Over the next two years we will strengthen our management but contain the level of work and concentrate on building profitability.

Quiligotti Access Flooring Ltd

	2000 £'000	1999 £'000
Sales	2,460	2,983
Profit before exceptionals, interest and tax	261	160

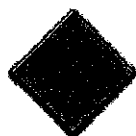
The emphasis in the business has been on securing opportunities where we have strong expertise and are most competitive. Thanks to more effective management control, there has been a worthwhile increase in profitability, reduced debt and lower turnover. We expect modest growth over the coming year, in part from our new product initiatives now in hand.

E-COMMERCE

The benefits to our business process from e-commerce are being actively explored. The views and needs of our customers and partners are being sought with a view of securing more efficient transaction processing. We have in hand a programme to significantly enhance our website to address the individual needs of consumers, clients, specifiers and stakeholders. A significant upgrade to our information systems is planned for 2001.



MARY-LORRAINE HUGHES
Group Chief Executive



Financial Director's Review

CAPITAL STRUCTURE

The Group's capital structure as at 31 March is as follows:

	2000 £'000	1999 £'000
Net debt		
Finance leases and hire purchase contracts	1,305	1,681
Cash and bank overdrafts	2,177	3,281
	3,482	4,962
Shareholders' funds		
Equity	13,822	13,381
	17,304	18,343

Our closing level of debt is £3.5 million. Of this total, £1.3 million is in respect of finance leases, the majority of which relates to a seven year lease for plant, on which the primary payments complete in September 2003. The interest rate on this is fixed but the interest payment reduces annually as repayments are made. The balance of borrowings is on overdraft at an interest cost related to base rates. Interest cover in the year was 8.4 times after exceptional and restructuring items.

It is intended that a progressive, but prudent, dividend policy be pursued whilst seeking a healthy cover to support the investment programme.

INVESTMENT AND USE OF FUNDS

As we stated in last year's report and accounts, we are now embarking on a significant capital spend on our wall tile manufacturing operation to create more capacity for the type of products most in demand. The total capital spend of £5.5 million will also give us significant unit cost savings through direct cost efficiency savings, and a plant with greater capacity and flexibility. Of this capital commitment, £0.3 million was spent during the year.

The remainder of our capital investment was limited to spend on periodic replacement of equipment and total spend on this was, and will remain, well below depreciation.

Over the last 3 years we have progressively reduced our borrowings and gearing despite the terrazzo factory capital spend, the restoration of dividends, the Woolliscroft acquisition and share buy-back. During the next year gearing will increase with the capital spend but following commissioning of plant in early 2001 we expect our usual strong cash generation to resume. We remain committed to the wisdom that strong profits turning into cash is a clear indication of the health and prosperity of a successful business.

DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group's principal financial instruments, other than derivatives, comprise finance leases, hire purchase contracts, and cash. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, that arise directly from its operations.

The Group also enters into derivative transactions (principally rate cap transactions and a limited number of forward currency contracts).

The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

Financial Director's Review

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and a limited amount of foreign currency risk.

The Board periodically reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since 1 April 1999.

INTEREST RATE RISK

The Group borrows in sterling at floating rates of interest and then uses interest rate caps to manage the Group's exposure to interest fluctuations.

An interest rate cap was in place for borrowings for an amount of £4.0 million at a capped rate of 7.5% but this expired on 30 June 1999.

LIQUIDITY RISK

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, finance leases and hire purchase contracts. Short term flexibility for working capital requirements is met by bank overdraft facilities. Should the need arise for significant additional funding requirements to meet the needs of changes in business strategy the Group would maintain a balanced borrowing profile which may include utilising long term loan facilities.

FOREIGN CURRENCY RISK

The Group has transactional currency exposures. Such exposures arise from sales or purchases by an operating unit in currencies other than sterling. The Group does not consider its normal exposure to currency fluctuation to be sufficient to justify the cost of forward cover but would use forward currency contracts to eliminate currency exposure on any significant individual purchases.

Less than 5% of the Group's sales are denominated in currencies other than in sterling and the Group does not consider the exposure resulting to be sufficient to justify forward cover on sales not made in sterling.

YEAR 2000 COMPLIANCE

Prior to 31 December 1999, steps were taken to review computer and date dependent systems critical to the Group's ongoing operations and preparation of financial information to establish the impact, if any, which the Year 2000 might have on the accuracy of calculations, processing and reporting. Although it is not possible to guarantee that no Year 2000 problems remain, the Group believes that its internal systems are Year 2000 compliant.

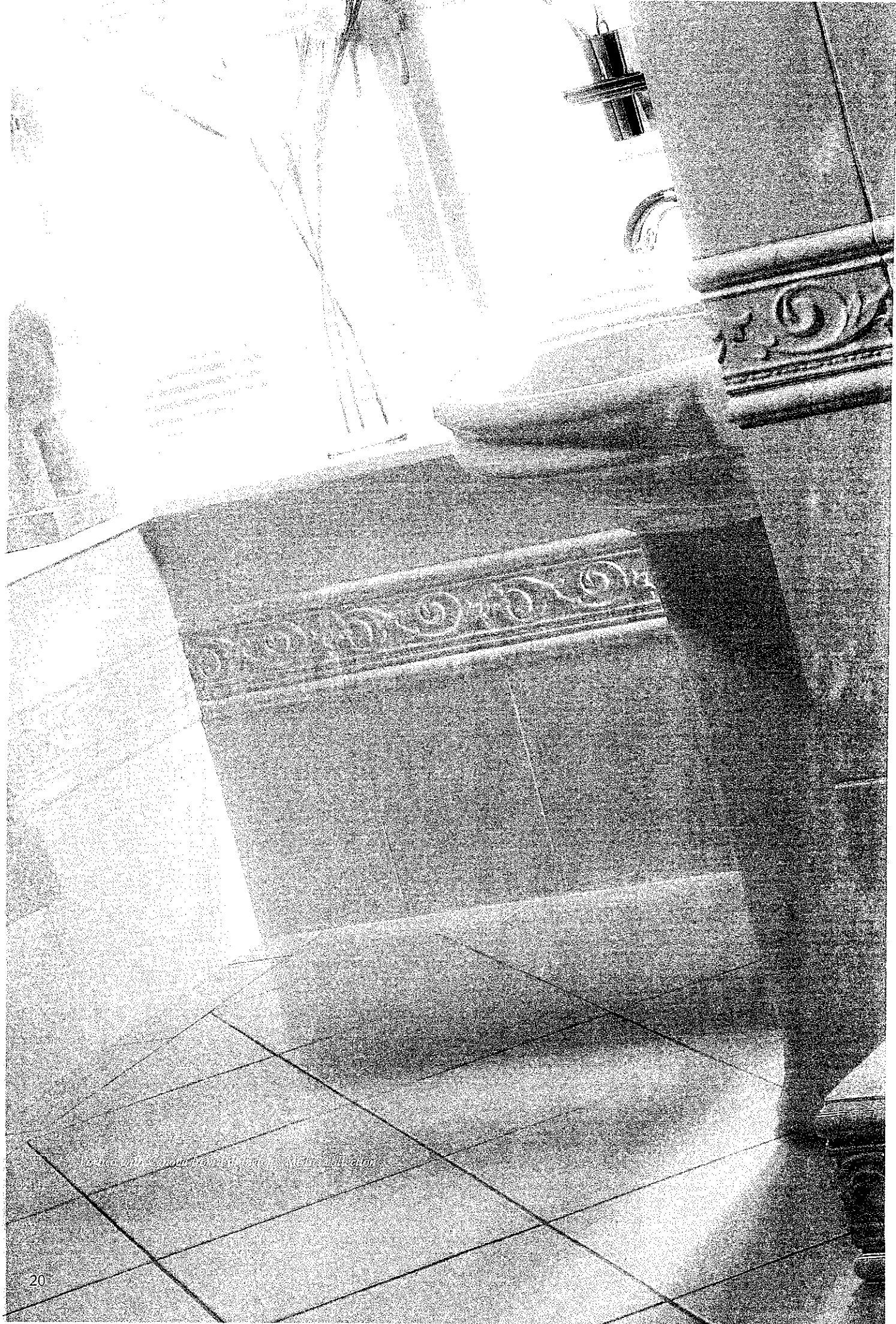
The Group continues to address the business risk from third parties with whom it deals on business and financial matters, including key customers and suppliers. Contingency plans have been developed to minimise the risk of disruption. No significant disruptions have occurred to date.

Although the millennium date change has passed and no significant problems have been encountered, the directors recognise that there is still a risk of Year 2000 impacting the business but do not expect this to be significant and do not expect to incur further expenditure.



DAVID BOOTH

Group Financial Director



Corporate Governance

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE PROVISIONS OF THE COMBINED CODE

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's Shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied to the Company and the Company's compliance with the Code provisions set out in Section 1 of the Combined Code prepared by the Committee on Corporate Governance chaired by Sir Ronald Hampel.

The Directors consider that the Company has fully complied with the provisions set out in Section 1 of the Combined Code throughout the year with the exception of provision D.3.1 and, for the early part of the year, provision B.1.7.

The composition of the Board of Directors, including short biographical notes, at the date of this report is shown on page 9. The Board believes that the number of non-executive Directors in office throughout the year has not been detrimental to its effectiveness and has been and is appropriate to the Group's current size and circumstances.

In addition to the two non-executives, the Chief Executive is a member of the Audit Committee and the Board believes that this has operated satisfactorily. The existing executive Directors now have service contracts which can be terminated on 12 months notice.

The Directors believe that in consideration to the size of the Board the Company does not require a formal nomination committee. In the event of a new Board appointment any Director can make a recommendation which would be considered by the whole Board.

THE WORKINGS OF THE BOARD AND ITS COMMITTEES

THE BOARD

The Board currently comprises the independent non-executive Chairman, three executive Directors and one other independent non-executive Director. During the year, B H Thompson retired and M-L Hughes and I Crowther were appointed as executive Directors. Their biographies appear on page 9. These demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct, which is vital to the success of the Group. The Board is responsible to Shareholders for the proper management of the Group. A statement of the Directors' responsibilities in respect of the accounts and a statement on going concern are given on page 30.

The Board meets every month, reviewing trading performance, ensuring adequate funding, setting and monitoring strategy, examining major acquisition possibilities and reporting to Shareholders. The non-executive Directors have a particular responsibility to ensure that the strategies proposed by the executive Directors are fully considered. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed by the Company Secretary to all Directors in advance of Board meetings. The Chairman ensures that the Directors take independent advice as required.

Corporate Governance

The following Committees deal with the specific aspects of the Group's affairs.

NOMINATION COMMITTEE

The Board have given due consideration to Part 2 of the Combined Code regarding establishment of a Nomination Committee. As recognised by the Code in cases where, as in this case, the Board is small, the Committee would comprise the existing Board and the Chairman of the Board would act as Chairman of the Nomination Committee. In appropriate cases, recruitment consultants would be used to assist the process. All Directors are subject to re-election at least every three years.

REMUNERATION COMMITTEE

The Group's Remuneration Committee is chaired by H A (Tony) Palmer and its other member is the other non-executive Director, P R McEnhill. It is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the executive Directors, including performance related bonus schemes, pension rights and compensation payments. The Board itself determines the remuneration of the non-executive Directors. Further details of the Company's policies on remuneration, service contracts and compensation payments are given in the Report on Directors' Remuneration on pages 24 to 26.

AUDIT COMMITTEE

The Audit Committee which is chaired by H A (Tony) Palmer, comprises the other non-executive Director, P R McEnhill, and M-L Hughes. M-L Hughes became a member of the Committee following her appointment as a Director and replaced B H Thompson who retired during the year. The Committee provides a forum for reporting by the Group's external auditors. Meetings are also attended, by invitation, by the Financial Director and the Commercial Director.

The Audit Committee is responsible for reviewing a wide range of matters including the half-year and annual accounts and monitoring the controls that are in force to ensure the integrity of the information reported to the Shareholders.

The Audit Committee advises the Board on the appointment of external auditors and on the remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with external auditors. The Audit Committee keeps under review the cost effectiveness and the independence and objectivity of the external auditors.

INTERNAL FINANCIAL CONTROL

The Board is responsible for establishing and maintaining the Group's system of internal financial control. Internal control systems are designed to meet the particular needs of the Group and the risks to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material misstatement or loss. The key procedures which the Directors have established with a view to providing effective internal financial controls are as follows:

MANAGEMENT STRUCTURE

The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. Each executive Director has been given responsibility for specific aspects of the Group's affairs. The executive Directors take part with key senior executives in monthly review meetings for all operating companies that review day to day matters and progress of the businesses.

CORPORATE ACCOUNTING, PROCEDURES AND INTEGRITY OF PERSONNEL

Responsibility levels are communicated throughout the Group as part of corporate accounting procedures. The general ethos of the Group is to seek delegation of authority and authorisation levels, segregation of duties and the establishment of suitable control procedures.

Corporate Governance

The integrity and competence of personnel is ensured through high recruitment standards and subsequent training courses. High quality personnel are seen as an essential part of the control environment and high ethical standards are expected. The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate course of action to manage those risks.

BUDGETARY PROCESS

Each year the Board approves an annual financial and management plan. Key risk areas are identified. Performance is monitored and relevant action taken throughout the year through the monthly reporting to subsidiary Boards and the Group Board of variances from the plan. Updated forecasts for the next quarter and full year are prepared together with information on key risk areas.

INVESTMENT APPRAISAL

Capital expenditure is regulated by a budgetary process and authorisation levels. For significant expenditure above specified levels, detailed written proposals have to be submitted to the Board. Due diligence work is carried out if a business is to be acquired.

AUDIT COMMITTEE

The Audit Committee considers and determines relevant action in respect of any control issues raised by the external auditors and the Group's own financial personnel. The Audit Committee has reviewed the effectiveness of the system of internal financial control as it operated during the year and reported its conclusions to the Board.

The Company has adopted the transitional approach to disclosure set out in the letter from the London Stock Exchange dated 27 September 1999.

In accordance with the recommendations of the Internal Control Working Party (the Turnbull Report), an evaluation of the identification and management of significant risks within the Group has been instigated. The Audit Committee will consider the findings from this evaluation and will implement any additional internal controls considered necessary as a result of this process. The Audit Committee will monitor and review reports on an ongoing basis and will report to the Board on a regular basis.

The Board expects to have procedures in place by 30 September 2000 to implement the Internal Control Guidance for Directors on the Combined Code. This allows for the time needed to put in place the procedures arising from the evaluation currently being carried out.

COMMUNICATION WITH INVESTORS

The Directors make one to one presentations after issue of full year and interim results to Institutional investors, not exclusively existing Shareholders. Visits to our sites are also encouraged and some fund managers avail themselves of this opportunity. The Company chooses to hold its Annual General Meeting on site at its larger factory location to provide individual Shareholders the chance to see facilities, ask questions and to understand better the Group's operations.

The Company has taken part in events organised by the London Stock Exchange and stockbrokers, including Share Aware North West. These are designed to increase awareness of private individuals and smaller Institutional fund managers in investment opportunities.

The Directors in meetings with fund managers seek to understand the criteria they expect from their investments and Directors look for constructive feedback on their views of the Company.

Key performance indicators used by the Directors to measure progress include growth in sales, operating profit as a percentage of sales and operating cashflow. Reductions in borrowings through trading are pursued to fund investment.

The criteria used for investment, both capital expenditure and acquisitions, is payback in cashflow.

Key non-financial indicators used to assess progress are customer satisfaction and operating companies' perception compared to competitors in the marketplace.

Report on Directors' Remuneration

REMUNERATION POLICY

The Company's policy on executive Director remuneration is to provide the packages necessary to attract, retain and motivate Directors of the quality required whilst remaining aware of the policies of comparable companies.

The main elements of executive remuneration are:

BASIC SALARY AND TAXABLE BENEFITS

Basic salaries for executive Directors are reviewed with effect from 1 June annually. Taxable benefits generally include provision of car and health care.

BONUSES

Service contracts make provision for an annual bonus dependent upon the actual performance of the Group compared to targets set out at the beginning of the financial year by the Remuneration Committee. For the year to 31 March 2000 no scheme was in operation.

SERVICE CONTRACTS

The executive Directors have service agreements which can be terminated on 12 months notice being given in writing by either party. The non-executive Directors do not have service contracts.

SHARE OPTION SCHEMES

The Company believes that share ownership by executive Directors strengthens the link between their personal interests and those of the Shareholders. Grants of share options to executive Directors are at the discretion of the Remuneration Committee.

The Company operates an Executive Share Option Scheme that was adopted by the Company on 29 June 1992 and amended on 8 November 1993, 8 July 1994 and 15 July 1997. The Scheme was set up for a period of ten years.

PENSION ENTITLEMENTS

The executive Directors participate in defined benefit pension arrangements sponsored by the Company. This scheme provides benefits based on earnings at or near retirement and is externally funded.

The following table shows the compulsory contributions of each member, the increase in accrued entitlement during the year and the accrued entitlement at the end of the year.

Name	Age at 31 March 2000	Members' contribution during the year £ '000	Increase, excluding inflation, in accrued pension during the year £ '000	Accumulated total accrued pension at 31.03.00 £ '000	31.03.99 £ '000
M-L Hughes	48	2.7	1.1	1.1	-
D J Booth	52	4.4	6.3	47.3	40.5
I Crowther	44	3.8	1.7	6.4	4.5
B H Thompson (retired 31/12/99)	60	3.9	16.0	54.8	38.4

Report on Directors' Remuneration

Normal retirement age is 60. Early retirement from the age of 50 is allowable subject to Company and Pension Trustees' approvals. Early retirement pension reduction factors would apply. Pension payment increases are applicable and are index linked up to a maximum of 5% per annum. For death before retirement a capital lump sum of four times the member's salary is payable subject to Pension Trustees' discretion. Additionally a spouse's pension of two-thirds of the member's prospective pension is payable, plus dependent children's pension provisions where applicable.

For death after retirement a spouse's pension of two-thirds of the member's pension is payable, plus the balance of a five-year guarantee if applicable. In the event of death after leaving service but before commencement of pension a spouse's pension of two-thirds of the accrued preserved pension is payable, plus a capital sum of five times the accrued preserved pension; dependent children's pension is also payable if applicable.

An additional contribution equivalent to 4% of annual salary including contracted bonus is paid into a personal pension arrangement for M-L Hughes.

Non-executive Directors do not participate in any of the Company pension schemes and do not receive any contribution to personal pension arrangements.

DIRECTORS' REMUNERATION

Name	Salary/ fees	Benefits	Bonuses	2000 Total	1999 Total	Defined contributions pension payments	
						2000	1999
	£	£	£	£	£	£	£
Executive							
B H Thompson (retired 31.12.99)	83,752	16,319	-	100,071	120,383	-	-
M-L Hughes (from 26.11.99)	43,516	10,896	-	54,412	-	833	-
D J Booth	93,335	21,028	-	114,363	100,735	-	-
I Crowther (from 1.3.2000)	6,667	1,800	-	8,467	-	-	-
Non-executive							
H A (Tony) Palmer	40,000	-	-	40,000	39,540	-	-
P R McEnhill	30,000	-	-	30,000	30,000	-	-
	297,270	50,043	-	347,313	290,658	833	-

Report on Directors' Remuneration

INTEREST IN OPTIONS

EXECUTIVE SHARE OPTION SCHEME

Options over ordinary shares of 5p each fully paid

Name	Date of grant	Number of options	Exercise period from	to	Exercise price per share
B H Thompson	22 July 97	750,000	1 Jan. 00	30 June 00	24.00p
M-L Hughes	22 Nov. 99	225,055	22 Nov. 02	21 Nov. 09	13.33p
	22 Nov. 99	1,181,544	22 Nov. 02	21 Oct. 06	13.33p
D J Booth	22 July 97	750,000	22 July 00	21 June 04	24.00p
	6 July 99	203,389	6 July 02	5 July 09	14.75p
	6 July 99	338,982	6 July 02	5 July 06	14.75p
I Crowther	22 July 97	375,000	22 July 00	21 June 04	24.00p
	6 July 99	203,389	6 July 02	5 July 09	14.75p
	6 July 99	203,389	6 July 02	5 June 06	14.75p

There is a performance requirement before options become exercisable that over three consecutive financial years, the earliest of which shall be no earlier than the financial year in which the option is granted, the earnings per share of the Company must increase by more than the retail price index plus 2½% per annum.

On reaching his retirement age on 31 December 1999, B H Thompson may exercise his options in whole or in part during the period from his retirement date up to six months from that date.

The market value of the Company's ordinary shares during the year was in the range from 7.75p to 17.50p, and was 8.75p at 31 March 2000. No options were exercised or lapsed during the year.

SAVINGS RELATED SHARE OPTION SCHEME

Options over ordinary shares of 5p each fully paid

Name	Date of grant	Number of options	Exercise period from	to	Exercise price per share
B H Thompson	1 Nov. 98	18,750	1 Jan. 00	30 June 00	10.4p
D J Booth	1 Nov. 98	93,750	1 Nov. 01	30 April 02	10.4p
I Crowther	1 Nov. 98	93,750	1 Nov. 01	30 April 02	10.4p

On reaching his retirement age on 31 December 1999, B H Thompson may exercise his options in whole or in part during the period from his retirement date up to six months from that date.

Directors' Report

The Directors present their report and accounts for the year ended 31 March 2000.

ACCOUNTS AND DIVIDENDS

The Directors submit the audited accounts of the Group for the year ended 31 March 2000. The profit for the year available to Shareholders amounts to £2,586,000 (1999 - £1,819,000).

The Directors recommend a final ordinary dividend of 0.4p per ordinary share, amounting to £739,796. The final dividend, if approved, will be paid on 4 August 2000 to ordinary Shareholders whose names were on the register on 7 July 2000. An interim dividend of 0.2p per ordinary share (1999: nil) was paid on 17 December 1999 amounting to £395,698. The total dividend on ordinary shares amounts to £1,135,494 (1999: £989,245).

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS DEVELOPMENTS

The principal activities of the Group are the manufacture and sale of quality ceramic wall and floor tiles and the manufacture, marketing and installation of terrazzo floor tiles. The Group also installs raised access flooring.

A review of business and an overview of future developments have been included in the Chief Executive's Review on pages 15 to 17.

RESEARCH AND DEVELOPMENT

The Group is committed to appropriate expenditure on research and development activities, as well as design, so as to maintain its position as a market leader in the manufacture and marketing of ceramic and terrazzo tiles and the installation of terrazzo tiles and raised access floors.

DIRECTORS AND THEIR INTERESTS

The beneficial interests of the Directors of the Company and their families at 31 March 2000 in ordinary shares of the Company, according to the register required to be kept by Section 325 of the Companies Act 1985, were as follows:

Name	31 March 2000	1 April 1999 or subsequent date of appointment
	Beneficial	Beneficial
H A (Tony) Palmer	112,346	-
B H Thompson (retired 31 December 1999)	3,440,508	3,440,508
D J Booth	3,440,508	3,440,508
P R McEnhill	2,250,000	250,000
M-L Hughes	116,000	-
I Crowther	1,720,256	1,720,256

The Director retiring by rotation is P R McEnhill who being eligible offers himself for re-election.

On 26 November 1999 M-L Hughes was appointed by the Board as a Director of the Company. On 1 March 2000 I Crowther was appointed by the Board as a Director of the Company. In accordance with the Articles of Association they will retire at the Annual General Meeting and being eligible will offer themselves for re-election.

Details of Directors' interest in share options under the Executive Share Option Scheme and Save As You Earn Share Option Scheme are provided in the Report on Directors' Remuneration on pages 24 to 26.

No ex-gratia payments have been made to Directors who resigned during the year. There have been no changes to the Directors' interests between 31 March 2000 and 9 June 2000.

Directors' Report

PURCHASE OF COMPANY'S OWN SHARES

During the year the Company purchased and cancelled 12,900,000 ordinary shares of 5p each in the capital of the Company (which represented approximately 6.5% of the issued ordinary share capital of the Company prior to such purchases) for a total consideration of £1,009,774 including costs. These purchases were made pursuant to the annual authority given by the Shareholders at the 1999 AGM. As referred to below, a renewal of this authority is again being sought at this year's AGM for market purchases of up to 18,400,000 ordinary shares.

As at 9 June 2000, there were outstanding 11,816,490 options to subscribe for ordinary shares of 5p each in the Company (representing approximately 6.4% of the issued ordinary share capital of the Company as at such date). If both the outstanding amount of the existing authority to purchase own shares is utilised in full before the 2000 AGM (being in respect of 6,800,000 ordinary shares) and the authority to purchase own shares proposed to be renewed at the 2000 AGM is renewed and is then utilised in full, then the outstanding options as at 9 June 2000 would represent approximately 7.4% of the issued ordinary share capital of the Company.

SUBSTANTIAL SHAREHOLDINGS

As at 30 May 2000 the Directors were aware of the following holdings of ordinary shares, which represent 3% or more of the issued ordinary share capital of the Company:

Shareholder	Number	%
Schroder Investment Management	23,450,000	12.7
Prudential Portfolio Managers	20,045,335	10.8
Fidelity Investment Management	18,950,000	10.2
Nutraco Nominees Ltd	15,204,000	8.2
Finsbury Investment Management	8,430,000	4.6
Rothschild Asset Management	5,750,000	3.1

SUPPLIER PAYMENT POLICY

The Company does not impose standard payment terms on its suppliers but agrees specific terms with each. It is the Company's policy to pay its suppliers in accordance with the terms which have been agreed. The Company is a holding company and therefore has no trade creditors.

CHARITABLE AND POLITICAL DONATIONS

The Company and its Subsidiaries made charitable contributions of £1,741 during the year. No political contributions were made during the year.

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

EMPLOYEE INVOLVEMENT

The Board places considerable value on the involvement of its employees and has improved its practice of keeping them informed on matters affecting them as employees and on various matters affecting the performance of the Group. Health and Safety Committees are in place at the Group factories.

Directors' Report

The Group produces a regular newsletter 'Update' in which information on the Group's progress and Company events is illustrated to employees. A system of regular team briefing is being introduced during the current year. Employees participate directly in the success of the business through the Group's Save As You Earn share scheme.

ANNUAL GENERAL MEETING

Resolution 7 to be proposed at the Annual General Meeting authorises the Directors to allot relevant securities pursuant to Section 80 of the Companies Act 1985 (the 'Act') up to an aggregate nominal amount of £3,246,630 which represents approximately 35% of the nominal amount of issued ordinary share capital of the Company as at 9 June 2000.

This authority will expire on the earlier of the conclusion of the next following Annual General Meeting of the Company and the date 15 months after the passing of the resolution. Except pursuant to the exercise of options the Directors have no current intention of issuing any shares. Resolution 7 will be proposed as an ordinary resolution.

Resolution 8 to be proposed at the Annual General Meeting empowers the Directors pursuant to Section 95 of the Act to allot equity securities for cash without first offering those shares to existing Shareholders on a pre-emptive basis as required by Section 89(1) of the Act. This authority is limited to £462,372, which represents approximately 5% of the nominal amount of issued ordinary share capital of the Company as at 9 June 2000. This authority will expire on the earlier of the conclusion of the next following Annual General Meeting of the Company and the date 15 months after the passing of the resolution. Resolution 8 will be proposed as a special resolution.

Resolution 9 to be proposed at the Annual General Meeting seeks the approval of Shareholders pursuant to Section 166 of the Act to a general authority for the Company to purchase its own shares. If approved, the Company will be authorised to effect market purchases of up to 18,400,000 ordinary shares, (which represent just under 10% of the issued ordinary share capital of the Company as at 9 June 2000), at a price which shall not exceed 105% of the average middle market quotations for ordinary shares of the Company as shown in the London Stock Exchange Daily Official List over the five business days immediately preceding the day of purchase. This authority will expire on the earlier of the conclusion of the next following Annual General Meeting of the Company and the date 15 months after the passing of the resolution. The Directors believe that it would be advantageous for the proposed general authority to be available to provide additional flexibility in the management of the Company's capital resources, however they have no present intention of using it. The Directors would only use such authority if satisfied that to do so would be in the best interests of Shareholders and would result in an increase in earnings per share. Any shares purchased under this authority will be cancelled and the number of ordinary shares in issue will be reduced accordingly. Resolution 9 will be proposed as a special resolution.

AUDITORS

A resolution to reappoint Ernst & Young as auditors will be proposed at the Annual General Meeting.

By order of the Board



D J Booth
Company Secretary

9 June 2000

Statement of Directors' Responsibilities in Respect of the Accounts

DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period.

In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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

GOING CONCERN

After making enquiries, the Directors confirm that they have a reasonable expectation that the Group has 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.

Report of the Auditors to the Members of Pilkington's Tiles Group plc

We have audited the accounts on pages 32 to 55 which have been prepared under the historical cost convention and the accounting policies set out on pages 36 and 37.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the annual report including, as described on page 30, the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on page 21 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of either the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2000 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor
Manchester

9 June 2000

Consolidated Profit and Loss Account
for the year ended 31 March 2000

		2000 Before exceptional and restructuring items	2000 Exceptional and restructuring items (Note 4)	2000 Total	1999 Before exceptional and restructuring items	1999 Exceptional and restructuring items (Note 4)	1999 Total
	Notes	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
TURNOVER							
Continuing - ongoing operations	2	43,485	-	43,485	39,973	-	39,973
Changes in stocks of finished goods and work in progress		80	-	80	(1,148)	-	(1,148)
Raw materials and consumables		11,064	-	11,064	11,268	-	11,268
Other external charges		11,734	257	11,991	10,738	310	11,048
Staff costs	5	14,667	179	14,846	13,571	417	13,988
Depreciation of tangible fixed assets		1,708	-	1,708	1,967	-	1,967
Amortisation of goodwill		46	-	46	8	-	8
		39,299	436	39,735	36,404	727	37,131
OPERATING PROFIT							
Continuing - ongoing operations		4,186	(436)	3,750	3,569	(727)	2,842
Interest payable and similar charges	6	(447)	-	(447)	(454)	-	(454)
Profit on ordinary activities before taxation	2&3	3,739	(436)	3,303	3,115	(727)	2,388
Taxation	7	(812)	95	(717)	(720)	151	(569)
Profit for the financial year	8	2,927	(341)	2,586	2,395	(576)	1,819
Dividends - ordinary dividend paid	9	(395)	-	(395)	-	-	-
- ordinary dividend proposed	9	(740)	-	(740)	(989)	-	(989)
Profit transferred to reserves	8&22	1,792	(341)	1,451	1,406	(576)	830
Earnings per ordinary share							
- basic	10	1.49p		1.31p	1.21p		0.92p
- diluted	10	1.48p		1.31p	1.21p		0.92p

A statement of movements on reserves is set out in Note 22.

Group Statement of Total Recognised Gains and Losses
for the year ended 31 March 2000

	2000	1999
	£'000	£'000
Profit for the financial year	2,586	1,819
Total recognised gains and losses relating to the year	2,586	1,819

Reconciliation of Shareholders' Funds

	2000	1999
	£'000	£'000
Total recognised gains and losses	2,586	1,819
Dividends	(1,135)	(989)
Other movements:		
- impact of purchase of share capital	(1,010)	-
- goodwill on 1998 acquisition	-	(118)
Total movements during the year	441	712
Shareholders' funds at 1 April	13,381	12,669
Shareholders' funds at 31 March	13,822	13,381

Note of Historical Cost Profit and Losses

	2000	1999
	£'000	£'000
Reported profit on ordinary activities before taxation	3,303	2,388
Difference between historical cost and revalued amount on property disposal	-	674
Historical cost profit on ordinary activities before taxation	3,303	3,062

Balance Sheets

as at 31 March 2000

	Notes	Group		Company	
		2000	1999	2000	1999
		£ '000	£ '000	£ '000	£ '000
Fixed assets:					
Intangible assets	11	936	914	-	-
Tangible assets	12	13,394	14,287	-	-
Investments	13	-	-	26,974	26,974
		14,330	15,201	26,974	26,974
Current assets:					
Stocks	14	7,304	7,470	-	-
Debtors	15	6,762	7,330	13,593	14,121
Cash at bank and in hand		2	2	-	-
		14,068	14,802	13,593	14,121
Creditors:					
Amounts falling due within one year	16	(13,344)	(15,051)	(740)	(989)
Net current assets/(liabilities)		724	(249)	12,853	13,132
Total assets less current liabilities		15,054	14,952	39,827	40,106
Creditors:					
Amounts falling due after more than one year	17	(968)	(1,307)	-	-
Provisions for liabilities and charges	18	(264)	(264)	-	-
Net assets		13,822	13,381	39,827	40,106
Capital and reserves:					
Called up share capital	21	9,247	9,892	9,247	9,892
Share premium account	22	10,828	10,828	10,828	10,828
Capital redemption reserve	22	645	-	645	-
Other reserve	22	-	-	17,938	17,938
Merger reserve	22	(1,001)	(1,001)	-	-
Profit and loss account	22	(5,897)	(6,338)	1,169	1,448
Equity shareholders' funds		13,822	13,381	39,827	40,106

These financial statements were approved by the Board on 9 June 2000.

Signed on behalf of the Board



D J Booth
Director

Consolidated Cash Flow Statement
for the year ended 31 March 2000

	2000		1999	
	£ '000	£ '000	£ '000	£ '000
Cash inflow from operating activities (Note 23)		6,049		3,627
Returns on investment and servicing of finance:				
Interest paid	(339)		(317)	
Interest element of finance lease rental payments	(108)		(137)	
Net cash outflow from returns on investments and servicing of finance		(447)		(454)
Taxation:				
UK corporation tax paid	(846)		(68)	
Tax paid		(846)		(68)
Capital expenditure:				
Payments to acquire tangible fixed assets	(934)		(1,513)	
Receipts from sales of tangible fixed assets	52		1,049	
Net cash outflow from investing activities		(882)		(464)
Net cash inflow before financing		3,874		2,641
Acquisitions and disposals:				
Purchase of business/subsidiary undertaking	-		(1,628)	
Net cash acquired with acquisition of business/subsidiary	-		(225)	
Net cash outflow from acquisitions		-		(1,853)
Equity dividends paid		(1,384)		-
Cash inflow before financing		2,490		788
Financing:				
Purchase of own share capital	(1,010)		-	
Capital element of finance lease rental payments	(376)		(359)	
Net cash outflow from financing		(1,386)		(359)
Increase in cash (Note 23)		1,104		429

Notes to the Accounts

for the year ended 31 March 2000

1. ACCOUNTING POLICIES

The principal accounting policies that have been adopted in the preparation of the consolidated accounts of Pilkington's Tiles Group plc are given below.

BASIS OF ACCOUNTING

The accounts have been prepared under the historical cost convention and have been prepared in accordance with applicable Accounting Standards in the United Kingdom.

GOODWILL

Goodwill arising on acquisitions of subsidiary undertakings and businesses prior to 1 April 1998 has been eliminated against reserves, and has not been restated on implementation of FRS 10. For acquisitions made subsequent to 1 April 1998 goodwill is capitalised and amortised over its estimated economic life to a maximum of 20 years. It is reviewed for impairment at the end of the first full year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

If a subsidiary, associate or business is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

BASIS OF CONSOLIDATION

The consolidated financial information includes the Company and all its subsidiary undertakings. The results of subsidiary undertakings acquired or disposed of are included in the consolidated profit and loss account from the date of their acquisition or up to the date of their disposal. The purchase consideration of subsidiary undertakings has been allocated to each class of asset on the basis of fair value at the date of acquisition with goodwill being the difference between the purchase consideration and the fair value of the net separable assets.

No profit and loss account is presented for the Company as provided by Section 230 of the Companies Act 1985.

INVESTMENTS

Fixed asset investments are shown at cost less amounts written off. Provisions are made for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

TANGIBLE FIXED ASSETS

All tangible fixed assets are stated at their purchase price, together with any incidental expenses of acquisition. Provision for depreciation is made so as to write off the cost or valuation of tangible fixed assets, on a straight-line basis, over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Freehold buildings	2%
Freehold land used as a quarry	4%
Plant and machinery	7.5%
Motor vehicles	20%
Computer equipment and software	20%-30%
Furniture, fittings, office equipment	20%

No depreciation is provided on land.

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Notes to the Accounts

for the year ended 31 March 2000

STOCKS

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis and includes transport and handling costs; in the case of manufactured products cost includes all direct expenditure and production overheads based on the normal level of activity. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the cost of realisation and, where appropriate, the cost of converting from their existing state to a finished condition. Provision is made for obsolete, slow moving and defective stocks. Contract costs are recognised in the profit and loss account as incurred.

FOREIGN CURRENCY

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

TURNOVER

Turnover represents the invoiced value of goods and services supplied and work completed on contracts after trade discounts. A prudent assessment of claims and variations considered recoverable is recognised in the accounts. Any differences between the final settlements on contracts and the turnover previously recognised is included in subsequent accounts. Turnover excludes VAT and sales between Group undertakings.

DEFERRED TAXATION

Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

DEVELOPMENT EXPENDITURE

Expenditure on research and development is charged in the profit and loss account as it is incurred.

FINANCE AND OPERATING LEASES

Assets held under finance leases are initially reported at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the useful economic life of the asset, and its repayments are apportioned between finance charges and reduction of the liability. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of charge on the outstanding balance.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

PENSION COSTS

Principally the Group operates defined benefit pension schemes. The funds are valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the Group benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme.

Notes to the Accounts

for the year ended 31 March 2000

2. SEGMENT INFORMATION

The analysis by business and geographical area of sales and of business class for profit or loss before taxation and net assets is set out below:

(a) Analysis of sales by business group

	2000	1999
	£ '000	£ '000
Terrazzo	4,727	4,663
Supply & fix	8,742	7,146
Raised access flooring	2,460	2,983
Ceramics	28,483	26,095
Inter Company sales	(927)	(914)
Total Sales	43,485	39,973

(b) Analysis of sales by destination

	2000	1999
	£ '000	£ '000
UK & Republic of Ireland	42,318	38,655
Other Europe	215	255
Rest of the world	952	1,063
Total Sales	43,485	39,973

All sales originate from the United Kingdom.

(c) Profit before tax by business group

	2000	1999
	£ '000	£ '000
Terrazzo	800	(126)
Supply & fix	503	567
Raised access flooring	261	160
Ceramics	3,311	3,488
Central costs	(689)	(520)
	4,186	3,569
Exceptional and restructuring items	(436)	(727)
	3,750	2,842
Finance costs	(447)	(454)
Profit before taxation	3,303	2,388

Of the exceptional and restructuring costs of £436,000 in 2000, £353,000 relates to ceramics and £83,000 to central costs. (1999: £57,000 relates to terrazzo, £438,000 relates to ceramics and £232,000 relates to central costs).

Notes to the Accounts

for the year ended 31 March 2000

2. SEGMENT INFORMATION (continued)

(d) Profit before tax by destination

	2000	1999
	£ '000	£ '000
UK & Republic of Ireland	4,130	3,503
Other Europe	21	25
Rest of the world	35	41
	4,186	3,569
Exceptional and restructuring items	(436)	(727)
	3,750	2,842
Finance costs	(447)	(454)
Profit before taxation	3,303	2,388

All exceptional and restructuring items arise from the United Kingdom and Republic of Ireland.

(e) Net assets (all UK) by business group

	2000	1999
	£ '000	£ '000
Terrazzo	3,446	3,609
Supply & fix	1,706	1,139
Raised access flooring	(86)	40
Ceramics	13,581	15,540
Net operating assets	18,647	20,328
Tax, dividends and other corporate items	(1,343)	(1,985)
Net debt	(3,482)	(4,962)
Net assets	13,822	13,381

Notes to the Accounts

for the year ended 31 March 2000

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	2000	1999
	£ '000	£ '000
Depreciation and amounts written off tangible fixed assets:		
- owned	1,535	1,794
- held under finance leases and hire purchase contracts	173	173
Hire of plant and machinery under operating leases	388	308
Auditors' remuneration	45	40
Auditors' non audit fees paid	49	33

4. EXCEPTIONAL AND RESTRUCTURING COSTS

Exceptional and restructuring costs comprise:

	2000			1999		
	Exceptional costs	Restructuring costs	Total	Exceptional costs	Restructuring costs	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Settlement and accrual for settlement of legal disputes	83	-	83	232	-	232
Provision against contract debtors	-	-	-	57	-	57
Redundancy costs	-	179	179	-	289	289
Relocation costs	-	174	174	-	149	149
	83	353	436	289	438	727

In the year to 31 March 1999 and 31 March 2000 restructuring costs relate to the relocation of the business of Woolliscroft Tiles Ltd from rented premises in Stoke-on-Trent to the Group's freehold premises in Poole, following the acquisition of the business of Woolliscroft Tiles on 1 February 1999. The Company vacated the rented premises at Stoke-on-Trent on 30 April 1999.

Notes to the Accounts
for the year ended 31 March 2000

5. STAFF COSTS

Particulars of employees (including executive Directors) are as follows:

	2000	1999
	£ '000	£ '000
Wages and salaries	12,999	12,125
Redundancy costs	179	289
Social security costs	940	910
Other pension costs	728	664
	14,846	13,988

The average monthly number of persons employed by the Group during the year was as follows:

	2000	1999
	No.	No.
Production	402	365
Contract work	102	98
Sales and administration	107	132
	611	595

Details of Directors' remuneration including pension entitlements and share options are included in the Report on Directors' Remuneration on pages 24 to 26.

6. FINANCE COSTS

	2000	1999
	£ '000	£ '000
On bank loans and overdrafts	339	317
Finance leases	108	137
	447	454

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2000	1999
	£ '000	£ '000
Current year UK corporation tax	820	569
Less over-provision in respect of prior year	(103)	-
	717	569

The effective corporation tax rate of 21.7% is lower than the expected rate of 30% due to the utilisation of tax losses brought forward.

Tax losses within the Group, relating to continuing operations, of £1,127,000 (1999 - £3,825,815) are carried forward. The reduction in losses carried forward is due to current year offset against profits of £1.6 million and a reduction in capital allowance claimed in the prior year of £1.1 million which have been carried over for claims in subsequent years.

Notes to the Accounts

for the year ended 31 March 2000

8. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

As permitted by Section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in the accounts.

The profit dealt with in the accounts of the parent Company was £1,866,000 (1999 - £2,774,000) before deducting dividends.

9. DIVIDENDS

Equity dividends on ordinary shares:

	2000	1999
	£ '000	£ '000
- interim paid 0.2p (1999 nil)	395	-
- final proposed 0.4p (1999: 0.5p)	740	989
	1,135	989

10. EARNINGS PER ORDINARY SHARE

	2000	1999
Earnings per share	Pence	Pence
Earnings per share before exceptional and restructuring costs	1.49	1.21
Attributable to exceptional and restructuring costs	(0.18)	(0.29)
Earnings per share	1.31	0.92

Diluted earnings per share

	Pence	Pence
Earnings per share before exceptional and restructuring costs	1.48	1.21
Attributable to exceptional and restructuring costs	(0.17)	(0.29)
Earnings per share	1.31	0.92

The calculation of earnings per share is based on:

	£ '000	£ '000
Profit on ordinary activities after taxation before exceptional and restructuring costs	2,927	2,395
Exceptional and restructuring costs	(341)	(576)
Profit on ordinary activities after taxation	2,586	1,819

Weighted average number of shares used in basic earnings per share:

	Thousands	Thousands
Weighted average for the year	197,000.7	197,848.9

Earnings per share is based on the weighted number of ordinary shares in issue during the year. Earnings per share are shown before exceptional and restructuring costs to illustrate the effect of these items on earnings per share.

The diluted earnings per share is based on profits for the year as shown above and on the number of ordinary shares, calculated as follows:

	Thousands	Thousands
Basic weighted average number of shares	197,000.7	197,848.9
Dilutive potential ordinary shares:		
- employee share options	782.5	401.7
	197,783.2	198,250.6

Notes to the Accounts
for the year ended 31 March 2000

11. INTANGIBLE FIXED ASSETS

	2000
Goodwill	
	£ '000
Cost	
Beginning of year	922
Increase during the year	-
-on prior acquisitions	68
End of year	990
Amortisation	
Beginning of year	8
Provided during the year	46
End of year	54
Net book value 31 March	936

Goodwill arose on the acquisition of the business of Woolliscroft Tiles and is being amortised evenly over the Directors' estimate of its presumed useful economic life of 20 years.

Notes to the Accounts

for the year ended 31 March 2000

12. TANGIBLE FIXED ASSETS

	Freehold land and buildings	Plant and machinery	Motor vehicles	Total
	£ '000	£ '000	£ '000	£ '000
Group				
Cost:				
Beginning of year	2,600	16,688	398	19,686
Additions	64	801	69	934
Disposals	-	(498)	(248)	(746)
End of year	2,664	16,991	219	19,874
Depreciation:				
Beginning of year	67	5,192	140	5,399
Charge for year	70	1,566	72	1,708
Disposals	-	(462)	(165)	(627)
End of year	137	6,296	47	6,480
Net book value:				
Beginning of year	2,533	11,496	258	14,287
End of year	2,527	10,695	172	13,394
Net book value of leased assets included in the above:				
Beginning of year	-	1,897	60	1,957
End of year	-	1,724	9	1,733

The net book value of land, which is not depreciated, is £1,147,000 (1999 - £1,147,000).

Included in plant and machinery additions is £394,500 for assets under construction on which no depreciation has been charged.

The Company

The Company has no tangible fixed assets.

Notes to the Accounts
for the year ended 31 March 2000

13. FIXED ASSET INVESTMENTS

The following are included in the net book value of fixed asset investments:

	Company
	£ '000
Investments in subsidiary undertakings	
Beginning and end of year	<u>26,974</u>

Subsidiary companies:

The principal operating subsidiaries at 31 March 2000 all of which are wholly owned and incorporated in England and Wales are:

Company	Business
Quiligotti Terrazzo Limited	Manufacture of terrazzo tiles
Quiligotti Contracts Limited	Installation of terrazzo tiles
Quiligotti Access Flooring Limited	Installation of access floors
Woolliscroft Tiles Limited	Manufacture of ceramic tiles
Dayamber Limited	Holding company
*Pilkington's Tiles Limited	Manufacture of ceramic tiles
*Royal Lancastrian Pottery Limited	Dormant

*Denotes shares held by other subsidiaries.

14. STOCKS

	Group	
	2000	1999
	£ '000	£ '000
Raw materials and consumables	702	572
Work in progress	646	556
Finished goods and goods for resale	5,956	6,342
	<u>7,304</u>	<u>7,470</u>

The Company held nil stocks as at 31 March 2000 and 31 March 1999.

15. DEBTORS

	Group		Company	
	2000	1999	2000	1999
	£ '000	£ '000	£ '000	£ '000
Amounts falling due within one year:				
Trade debtors	6,192	6,761	-	-
Amounts owed by Group undertakings	-	-	13,593	14,121
Other debtors	10	91	-	-
Prepayments and accrued income	560	478	-	-
	<u>6,762</u>	<u>7,330</u>	<u>13,593</u>	<u>14,121</u>

The Group and Company have no debtors falling due after more than one year.

Notes to the Accounts

for the year ended 31 March 2000

16. CREDITORS: Amounts falling due within one year.

	Group		Company	
	2000	1999	2000	1999
	£ '000	£ '000	£ '000	£ '000
Bank overdrafts (Note 23c)	2,179	3,283	-	-
Obligations under finance leases and hire purchase contracts	337	374	-	-
Trade creditors	5,359	5,429	-	-
Corporation tax	603	732	-	-
Other taxes and social security costs	1,665	1,487	-	-
Other creditors	2,461	2,757	-	-
Proposed dividend	740	989	740	989
	13,344	15,051	740	989

The Group has granted a fixed and floating charge on all assets to secure bank overdrafts.

17. CREDITORS: Amounts falling due after more than one year.

	Group	
	2000	1999
	£ '000	£ '000
Obligations under finance leases and hire purchase contracts	968	1,307

The Company had no creditors falling due after more than one year at 31 March 2000 and 31 March 1999.

Obligations under finance leases and hire purchase contracts are repayable as follows:

	Group	
	2000	1999
	£ '000	£ '000
Within one year	422	430
Between one and two years	422	423
Between two and five years	633	1,099
	1,477	1,952
Less: finance charges allocated to future periods	(172)	(271)
	1,305	1,681

Finance leases and hire purchase contracts are analysed as follows:

Due within one year	337	374
Due after one year	968	1,307
	1,305	1,681

Notes to the Accounts

for the year ended 31 March 2000

18. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges comprise:

	Group	
	2000	1999
	£ '000	£ '000
Deferred taxation	200	200
Provision for unfunded pensions	64	64
	264	264

Deferred taxation

Deferred taxation has been provided to the extent that the Directors have concluded on the basis of reasonable assumptions and the intentions of management that it is probable that part of the liability will crystallise.

	Group	
	2000	1999
	£ '000	£ '000
Excess of tax allowances over book depreciation of fixed assets	237	231
Other timing differences	(37)	(31)
	200	200

The movement on deferred taxation comprises:

	Group
	2000
	£ '000
Beginning of year	200
Charged to profit and loss account, in respect of:	
- capital allowances	6
- other timing differences	(6)
End of year	200

The amounts of unprovided deferred taxation are as follows:

	Group	
	2000	1999
	£ '000	£ '000
Capital allowances in advance of depreciation	949	1,443

The Company has no unprovided deferred tax liabilities.

Provision for unfunded pensions

The movement in the provision for unfunded pensions is as follows:

	Group	
	2000	1999
	£ '000	£ '000
Beginning and end of year	64	64

Notes to the Accounts

for the year ended 31 March 2000

19. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

An explanation of the Group's objectives, policies and strategies for the role of derivatives and other financial instruments in creating and changing the risks of the Group in its activities can be found on pages 18 and 19. The disclosures below exclude short term debtors and creditors other than within the currency exposures.

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Group as at 31 March was as follows:

	Financial liabilities	Floating rate	Fixed rate
	£ '000	£ '000	£ '000
2000			
Total (all sterling)	3,484	2,179	1,305
1999			
Total (all sterling)	4,964	3,283	1,681

The floating rate financial liabilities comprise sterling overdrafts that bear interest at rates based on LIBOR.

Fixed rate liabilities comprise finance leases and hire purchase contracts. The weighted average period of these is 3.3 years at a weighted average interest rate of 7.8%.

Currency exposures

The table below shows the Group's currency exposures; in other words, those transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in sterling.

As at 31 March, these currency exposures were as follows:

	Net foreign currency monetary assets/(liabilities)	
	2000	1999
	£ '000	£ '000
Italian Lira	(20)	(42)
Spanish Peseta	(90)	(140)
German Deutschmark	(23)	(73)
Euro	(22)	(78)
Australian Dollars	13	23
Total	(142)	(310)

Notes to the Accounts
for the year ended 31 March 2000

19. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31 March was as follows:

	2000	1999
	£ '000	£ '000
In one year or less, or on demand	2,516	3,657
In more than one year, but not more than two	365	338
In more than two years, but not more than five	603	969
	3,484	4,964

Borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 March in respect of which all conditions precedent had been met at that date are as follows:

	2000	1999
	£ '000	£ '000
Expiring in one year or less	10,121	9,017

Fair values of financial assets and financial liabilities

In the opinion of the Directors the fair value of all primary financial instruments, being short and long term borrowing and cash, and derivative financial instruments, being interest rate caps and forward currency contracts, approximates to the carrying amount. The book values of derivative financial instruments are nil.

Notes to the Accounts

for the year ended 31 March 2000

20. PENSIONS

(a) From 31 March 2000, the Group operated the Pilkington's Tiles Pension Scheme arrangement for Group employees. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions to the defined benefit sections of the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives. Contributions to the defined contribution scheme are charged to the profit and loss account as they fall due.

The scheme was set up on 1 January 1997 and received a bulk transfer value of £12,672,000 from the BTR Group Pension Scheme on 1 December 1997. A formal valuation was completed as at 1 January 1997. The key assumptions used were that the rate of return on investments exceeded the rate of salary growth by 1.75% and the rate of pension increases by 4.25%. The scheme had no assets on the valuation date of 1 January 1997 but for valuation purposes the bulk transfer value from the BTR Group Pension Scheme was given a market value of £10,825,900. The actuarial value of the assets represented 98% of the value of the benefits that had accrued to members after allowing for expected future increases in earnings. Contributions to the defined benefit scheme are determined by independently qualified actuaries on the basis of valuations using the projected unit method. Group contributions are being paid which include an allowance to remove the small deficit over employees' future working lives.

The assets and liabilities of the A Quiligotti & Co. Retirement Benefits Scheme were transferred to the Pilkington's Tiles Pension Scheme with effect from 31 March 2000. The Quiligotti scheme will be wound up in due course.

A formal valuation of the Quiligotti scheme was completed as at 1 April 1997. The key assumptions used were that the rate of return on investments exceeded the rate of salary growth by 1.5% and the rate of pension increases for pensions that accrued after 6 April 1997 by 5%. The market value of the assets of the scheme as at 1 April 1997 was £1,390,000 and the actuarial value of the assets represented 114% of the value of the benefits that had accrued to members after allowing for expected future increases in earnings. Contributions to the scheme were determined by independently qualified actuaries on the basis of valuations using the attained age method.

Formal valuations of both schemes have been carried out as at 1 January 2000 and results will be available shortly.

The pension cost charged to profit and loss for the year amounted to £665,091 (1999 - £627,006).

(b) The Group also operates defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost charge represents amounts payable by the Group to the schemes during the year and amounted to £62,438 (1999 - £36,868).

Notes to the Accounts
for the year ended 31 March 2000

21. CALLED-UP SHARE CAPITAL

	2000	1999	2000	1999
	Number	Number	£ '000	£ '000
Authorised:				
Ordinary shares of 5p each	264,800,000	264,800,000	13,240	13,240
Allotted, called-up and fully paid:				
Ordinary shares of 5p each	184,948,954	197,848,954	9,247	9,892

The reduction in shares in issue results from 12,900,000 shares being purchased by the company during the year for a consideration of £1,009,774.

Share Options

No options were granted during the year under the Savings-Related Share Option Scheme. On 6 July 1999 options to acquire 2,135,583 ordinary shares and on 22 November 1999 options to acquire 1,594,145 ordinary shares were granted to employees under the Company's Executive Share Option Scheme. Changes during the year in the number of outstanding options are shown below:

	Executive Share Option Scheme	1998 Savings-Related Share Option Scheme
Beginning of year	4,356,000	5,154,861
Granted	3,729,728	-
Exercised	-	-
Lapsed	(750,000)	(674,099)
End of year	7,335,728	4,480,762

At 31 March 2000 options to purchase ordinary shares had been granted to and not exercised by participants of share option schemes as follows:

	Date of grant	Number of shares	Price	Date of exercise
Executive Share Option Scheme	23.09.92	11,000	100.0p	23.09.95 to 23.09.02
	20.07.94	20,000	18.5p	20.07.97 to 20.07.04
	23.12.94	20,000	12.5p	23.12.97 to 23.12.04
	29.11.95	100,000	13.25p	29.11.98 to 29.11.05
	22.07.97	421,211	24.75p	22.07.00 to 22.07.07
	22.07.97	3,033,789	24.0p	22.07.00 to 22.06.04
	06.07.99	1,084,740	14.75p	06.07.02 to 06.07.09
	06.07.99	1,050,843	14.75p	06.07.02 to 06.07.05
	22.11.99	225,055	13.33p	22.11.02 to 22.11.09
	22.11.99	1,369,090	13.33p	22.11.02 to 22.11.05
Save As You Earn Share Option Scheme	01.11.98	4,480,762	10.4p	01.11.01 or 01.11.03

Notes to the Accounts

for the year ended 31 March 2000

22. RESERVES

The movement on reserves in the year is as follows:

Group	Share premium	Capital redemption reserve	Merger reserve	Profit & Loss account
	£ '000	£ '000	£ '000	£ '000
At beginning of year	10,828		(1,001)	(6,338)
Profit for the financial year	-	-	-	1,451
Purchase own shares				
- nominal value	-	645	-	-
- total consideration paid	-	-	-	(1,010)
At end of year	10,828	645	(1,001)	(5,897)

The cumulative amount of goodwill written off at 31 March 2000 is £25,380,000 (1999 - £25,334,000).

Company	Share premium	Capital redemption reserve	Other reserve	Profit & Loss account
	£ '000	£ '000	£ '000	£ '000
At beginning of year	10,828	-	17,938	1,448
Profit for the financial year	-	-	-	731
Purchase own shares				
- nominal value	-	645	-	-
- total consideration paid	-	-	-	(1,010)
At end of year	10,828	645	17,938	1,169

Notes to the Accounts
for the year ended 31 March 2000

23. CASH FLOW INFORMATION

(a) Reconciliation of operating profit to net cash inflow from operating activities:

	2000	1999
	£ '000	£ '000
Operating profit	3,750	2,842
Depreciation charges	1,708	1,967
Loss on sale of fixed assets	66	-
Amortisation of goodwill	46	8
(Increase)/decrease in stocks	166	(1,471)
Decrease in debtors	568	26
Increase/(decrease) in creditors	(255)	255
Net cash inflow from operating activities	6,049	3,627

(b) Reconciliation of net cash flow to movement in net debt:

	2000	1999
	£ '000	£ '000
Increase in cash in the period	1,104	429
Cash outflow from decrease in lease financing	376	359
Change in net debt arising from cash flows	1,480	788
Loans and finance leases acquired with subsidiary undertaking	-	(63)
Movement in net debt in the period	1,480	725
Net debt at 1 April	(4,962)	(5,687)
Net debt at 31 March	(3,482)	(4,962)

Notes to the Accounts

for the year ended 31 March 2000

23. CASH FLOW INFORMATION (continued)

(c) Analysis of net debt:

	Opening	Cash Flow	Closing
	£ '000	£ '000	£ '000
Cash	2	-	2
Overdraft	(3,283)	1,104	(2,179)
	(3,281)	1,104	(2,177)
Finance lease obligations	(1,681)	376	(1,305)
Total	(4,962)	1,480	(3,482)

(d) Cash flows relating to operating activities include the following which relate to exceptional and restructuring costs:

	2000	1999
	£ '000	£ '000
(Outflow)		
Settlement of legal disputes and legal costs	(83)	(133)
Redundancy costs	(179)	(290)
Factory relocation costs	(174)	(149)
	(436)	(572)

Notes to the Accounts
for the year ended 31 March 2000

24. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

(a) Capital Commitments:

	2000	1999
	£ '000	£ '000
Contracted by Group	5,322	204

(b) Contingent Liabilities:

	Group		Company	
	2000	1999	2000	1999
	£ '000	£ '000	£ '000	£ '000
Guarantees in respect of bank borrowings of subsidiary undertakings	-	-	2,179	3,283
Guarantees in respect of hire purchase and finance lease obligations of subsidiary undertakings	-	-	1,305	1,681
	-	-	3,484	4,964

The Group is defending two legal actions being brought against a subsidiary Company relating to works carried out for supply and fix contracts. A defence has been served against both actions. The Directors have sought legal advice as to the likelihood of successfully defending these actions and, based on this and their knowledge, have set aside an appropriate amount to cover estimated liabilities.

(c) Obligations Under Operating Leases:

Annual commitments under non-cancellable leases are as follows:

	2000		1999	
	Land & buildings	Other	Land & buildings	Other
	£ '000	£ '000	£ '000	£ '000
Operating leases which expire:				
- within one year	-	252	-	100
- in two to five years	-	292	-	172
	-	544	-	272

The Company has no operating lease obligations (1999 - £Nil)

Five Year Financial Summary
for the year ended 31 March

	1996	1997	1998	1999	2000
	£ '000	£ '000	£ '000	£ '000	£ '000
Turnover	12,337	10,375	29,667	39,973	43,485
Profit/(loss) before interest and tax, restructuring and exceptional costs	(216)	356	1,931	3,569	4,186
Restructuring and exceptional costs	(283)	-	(1,286)	(727)	(436)
Net interest payable	(177)	(177)	(541)	(454)	(447)
Taxation	-	-	-	(569)	(717)
Dividends	-	-	-	(989)	(1,135)
Retained profit/(loss) for the year	(676)	179	104	830	1,451
Dividends per share	-	-	-	0.5p	0.6p
Net debt	(1,468)	(2,140)	(5,687)	(4,962)	(3,482)
Shareholders' interests	1,492	1,671	12,669	13,381	13,822
Gearing	98.4%	128.1%	44.9%	37.1%	25.2%

Notice of Annual General Meeting

Notice is hereby given that the twelfth Annual General Meeting of Pilkington's Tiles Group plc ('the Company') will be held at the Conference Centre, Pilkington's Tiles Group plc, Rake Lane, Clifton Junction, Manchester M27 8LP on Thursday, 20 July 2000, at 11.00 a.m., for the following purposes:

1. To approve and adopt the audited accounts for the year ended 31 March 2000, together with the Directors' and Auditors' reports.
2. To declare a final dividend at the rate of 0.4p per ordinary share in the capital of the Company for the year ended 31 March 2000 payable on 4 August 2000 to Shareholders on the Register at the close of business on 7 July 2000.
3. To re-elect Mr P R McEnhill as a Director.
4. To re-elect Dr M-L Hughes as a Director.
5. To re-elect Mr I Crowther as a Director.
6. To re-appoint Ernst & Young as Auditors and to authorise the Directors to determine their remuneration.

To consider and, if thought fit, pass the following resolutions which will be proposed as to resolution 7 as an ordinary resolution and as to resolutions 8 and 9 as special resolutions of the Company:

7. That

- (a) the Directors be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 in substitution for all existing authorities under that Section to exercise all the powers of the Company to allot relevant securities (as defined for the purposes of that Section) up to an aggregate nominal amount of £3,246,630;
- (b) this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next Annual General Meeting after the passing of this resolution or 15 months from the passing of this resolution (if sooner); and
- (c) the Company may, before this authority expires, make an offer or agreement which would or might require relevant securities to be allotted under this authority after it expires and the Directors may allot relevant securities in pursuance of that offer or agreement as if such authority had not expired.

8. That

- (a) subject to the passing of resolution 7 set out in this notice of Annual General Meeting, the Directors be and are hereby given power pursuant to Section 95 of the Companies Act 1985 to allot for cash equity securities (as defined in Section 94 of that Act), pursuant to any general authority conferred on them pursuant to Section 80 of that Act, as if Section 89(1) of that Act did not apply to the allotment, but this power shall be limited to:

(i) the allotment of equity securities in connection with an offer or issue to or in favour of holders of ordinary shares in the capital of the Company on the Register on a date fixed by the Directors where the equity securities respectively attributable to the interests of the holders of ordinary shares are proportionate (as nearly as practicable) to the respective amounts of ordinary shares held by them on that date, but the Directors may make such exclusions or other arrangements as they consider expedient in relation to fractional entitlements, legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange; and

(ii) the allotment (other than under sub-paragraph (i) of this resolution) for cash of equity securities having, in the case of relevant shares (as defined for the purposes of Section 89), a nominal amount or, in the case of other equity securities, giving the right to subscribe for, or convert into, relevant shares having a nominal amount not exceeding in aggregate £462,372;

- (b) this power shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or 15 months from the passing of this resolution (if sooner); and

(c) the Company may, before this power expires, make an offer or agreement which would or might require equity securities to be allotted after it expires and the Directors may allot equity securities in pursuance of that offer or agreement as if such authority had not expired.

Notice of Annual General Meeting

9. That pursuant to Article 11 of its Articles of Association, the Company be and is hereby generally and unconditionally authorised for the purpose of Section 166 of the Companies Act 1985 to make one or more market purchases (within the meaning of Section 163 of that Act) of ordinary shares of 5p each in the capital of the Company ('Ordinary Shares') on such terms and in such manner as the Directors may from time to time determine provided that:

- (a) the maximum aggregate number of Ordinary Shares authorised to be purchased is 18,400,000;
- (b) the minimum price which may be paid for an Ordinary Share is 5p (exclusive of expenses);
- (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share is an amount equal to 105% of the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the Ordinary Share is purchased;
- (d) this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or 15 months from the passing of this resolution (if sooner); and
- (e) the Company may, before this authority expires, make a contract or contracts to purchase Ordinary Shares under this authority which contract would or might be executed wholly or partly after the expiry of this authority, and the Directors may make a purchase of Ordinary Shares in pursuance of any such contract or contracts as if such authority had not expired.

By order of the Board,

D J Booth,
Company Secretary

Registered Office:
PO Box 4
Rake Lane
Clifton Junction
Manchester
M27 8LP

9 June 2000

Notes:

1. A Shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not also be a Shareholder. Appointment of a proxy will not preclude a Shareholder from attending and/or voting at the Annual General Meeting.
2. Forms of proxy should be completed in accordance with the notes on the enclosed form and should be received by the Company's Registrars, License No. SWB 1002, Computershare Services plc, PO Box 1075, Bristol BS99 3FA, not later than 48 hours before the time appointed for the Annual General Meeting. In the case of a form of proxy signed by an agent of a Shareholder who is not a corporation, the authority under which the proxy form is signed, or an office copy or a copy of it certified in accordance with Section 3 of the Powers of Attorney Act 1971, should also be received by the Registrars not later than 48 hours before the time appointed for the meeting.
3. The Company, pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those Shareholders registered in the Register as at 11.00 am on 18 July 2000 shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries in the Register after 11.00 am on 18 July 2000 shall be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.
4. Copies of the service contracts of the Directors of the Company are available for inspection at the registered office of the Company during normal business hours and will be available for inspection at the place of the Annual General Meeting from 10.45 am until its conclusion.

Directors and Advisers

Directors:

H.A. (Tony) Palmer	Non-Executive Chairman
Mary-Lorraine Hughes	Group Chief Executive
David Booth	Group Financial Director
Ian Crowther	Group Commercial Director
Ray McEnhill	Non-Executive Director

Secretary:

David Booth

Registered and Head Office:

P O Box 4
Rake Lane
Clifton Junction
Manchester
M27 8LP

Registered Number:
2282021

Bankers:

Bank of Scotland
19/21 Spring Gardens
Manchester
M2 1FB

Solicitors:

DLA
101 Barbirolli Square
Manchester
M2 3DL

Davies Wallis Foyster
5 Castle Street
Liverpool
L2 4XE

Auditors:

Ernst & Young
100 Barbirolli Square
Manchester
M2 3EY

Financial Advisers:

Close Brothers Corporate Finance
10 Crown Place
Clifton Street
London
EC2A 4FT

Stockbroker:

Old Mutual Securities
80 Cheapside
London
EC2V 6NA

Registrar:

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PR:

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