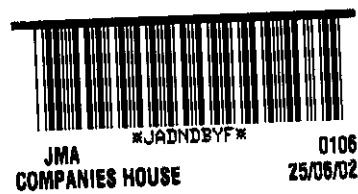


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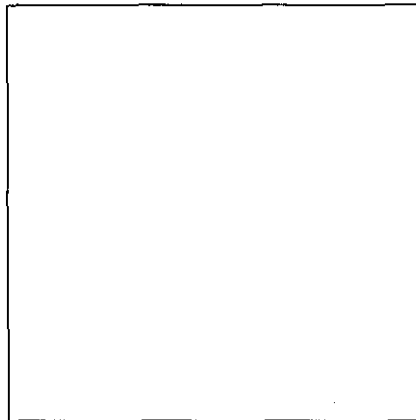
Pilkington's Tiles Group plc
Annual Report and Accounts 2002



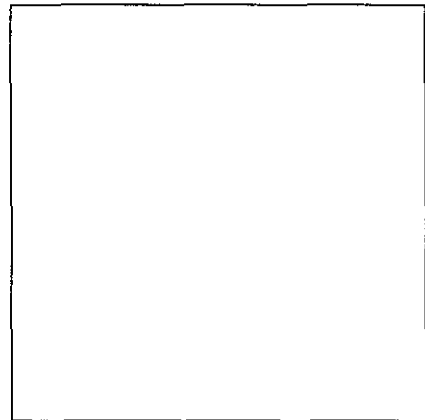
Front cover: the six base tiles of the new **Directions** ceramic wall tile collection, each with its own natural surface texture.
Back cover: the texture of slip-resistant **Terrazzo** tiles.

Pilkington's is a design-led manufacturing and service Group offering high quality wall and floor solutions for the home, office, commercial and industrial environments.

New aesthetic and functional textures which define our environment in brand new ways...



Directions: six base wall tiles, each surface subtly different, in soft, warm, natural colours. Sensual and distinctive to the touch.



Slip resistant Terrazzo: floor tiles in an infinite variety of shades, tested to high standards for specific areas of usage.

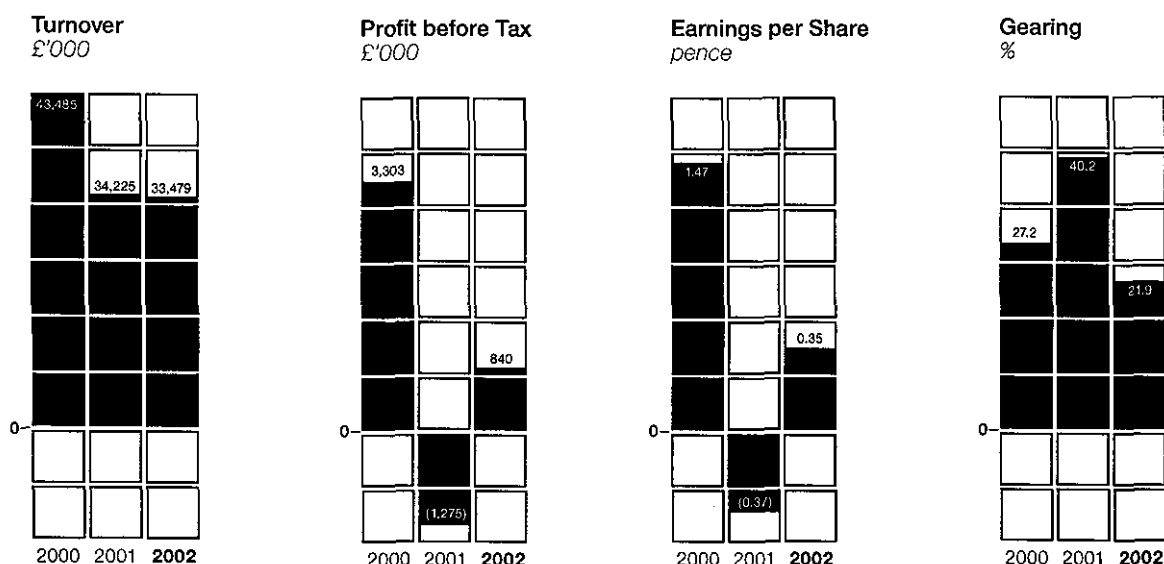
Our portfolio is being honed to closely reflect the aesthetic and functional needs of the market and to offer real value for money.

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Financial and Operational Highlights

The improvement in Group profitability is pleasing, especially in a year which has proved to be testing for British manufacturing. In particular, both our Terrazzo and Access Flooring businesses performed strongly, whilst the Ceramics business, which continues to operate in a highly competitive market, made satisfactory progress following the losses made in the previous year.



Group returns to profit...

Profit before tax **£0.8 million** compared to loss of £1.3 million in previous year.

Gearing reduced...

Gearing down to **21.9%** from 40.2% in previous year.

Financial Highlights for the year ended 31 March 2002

	2002 £'m	2001 £'m	2000 £'m
Turnover	33.5	34.2	43.5
Profit before taxation and exceptional costs	1.0	0.7	3.7
Exceptional costs	(0.2)	(2.0)	(0.4)
Profit/(loss) before taxation	0.8	(1.3)	3.3
	p	p	p
Earnings per share (before exceptional costs)*	0.42	0.47	1.64
Earnings/(loss) per share (after exceptional costs)*	0.35	(0.37)	1.47
Dividends per share	-	0.2	0.6
	Times	Times	Times
Interest cover (before exceptional costs)	3.6	3.0	9.4
Dividend cover (before exceptional costs)*	-	2.4	2.9
	£'m	£'m	£'m
Net debt	3.1	5.2	3.5
	%	%	%
Gearing*	21.9	40.2	27.2

* Prior year comparatives have been restated for FRS 19.

Brand Profiles



Pilkington's is 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.

Woolliscroft

Woolliscroft Tiles has been manufacturing 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.



Quilgotti introduced Terrazzo manufacture to the UK and remains 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 Quilgotti Terrazzo into new areas of use, capturing the imagination of a new generation of designers and specifiers.



Quilgotti 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.



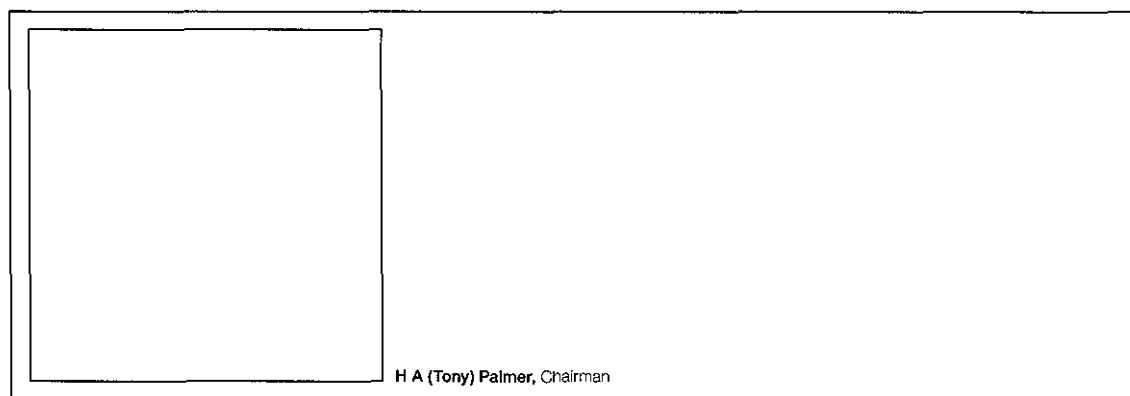
Specialists in the installation of hard flooring, the company is particularly involved in projects that are most demanding by way of their large scale or difficult site conditions and timescale.

The ceramic business returns to profit following remedial actions referred to in last year's annual report, but a considerable amount remains to be accomplished.

Both the Terrazzo and Access Flooring businesses performed strongly, returning record profits.

Directions Essential: a soft satin glaze, and each motif a delicate imprint of life captured forever within stone.

The coming financial year should see further improvement as we reduce the breadth of our activities, build on areas of strength and focus on improving both the pace of change and operational effectiveness.



The improvement in Group profitability is pleasing, especially in a year which has proved to be testing for British manufacturing. In particular, both our Terrazzo and Access Flooring businesses performed strongly, whilst the Ceramics business, which continues to operate in a highly competitive market, made satisfactory progress following the losses made in the previous year.

Results

Profit before tax and exceptional items was £1.0 million compared to £0.7 million in the previous financial year. Profit before tax after exceptionals has increased to £0.8 million compared to a loss of £1.3 million in the year to 31 March 2001. Exceptional costs and write-offs totalling £2.0 million, which severely affected last year's results, have been reduced to £164,000, which includes redundancy costs of £110,000 following the introduction of the new kiln technology.

Group turnover of £33.5 million has fallen from the previous period of £34.2 million. The background to the trading performance of our individual activities is detailed in the Chief Executive's Review.

The Group's balance sheet remains satisfactory. Total borrowings were £3.1 million (reduced from £5.2 million in 2001) and gearing has fallen to 21.9% (2001: 40.2%). This lower level of gearing reflects a strongly positive cash flow performance but is in part due to the final payments, amounting to £1.3 million for the small tile kiln, having not yet been made.

Strategy

As noted in last year's annual report, management is focused on resolving the issues which have affected the business in recent years. We continue to review our manufacturing operations in order to ensure that we are able to realise the benefits from recent investment, particularly that made in our ceramic manufacturing technology.

Although the Group has returned to profitability, the supply and fix business again made a loss and it has been decided that we should withdraw from this activity due to the difficulties encountered in recent periods and to reduce the Group's exposure to the risks associated with this business. This action will also allow increased focus on our core businesses. Consequently, no further long term work is being sought by Quiligotti Contracts Limited and it is planned that we will complete those contracts to which we are currently committed within the next twelve months.

Shareholders will have noted the announcements made during the year with regard to our freehold site in Poole. In particular, on 25 March, we released the results of the professional valuations of that site to ensure that, following my comments in last year's annual report and recent press speculation,

all our shareholders are kept informed. We reiterate that no firm offers have been received in respect of this land and that we continue to operate our floor tile manufacturing facility there as usual.

We also announced our intention to apply to transfer the listing of the Company's issued share capital to the Alternative Investment Market (AIM). This process was completed on 25 April 2002. We believe that an AIM listing offers significant advantages to both the Company and its shareholders, including potential cost savings and flexibility.

Dividend

As indicated at the half year, the repayment of debt is a high priority and we have not declared a dividend. We are currently part way through a corporate restructuring programme designed to simplify our corporate structure and this is explained in more detail in the Finance Director's Review. It is anticipated that this process will be finalised before publication of our interim results for the six months ending 30 September 2002. Subject to the capital reduction programme described in the Directors' Report taking effect, the Board intends to resume payment of dividends when satisfied that the business recovery is sufficient and consolidated.

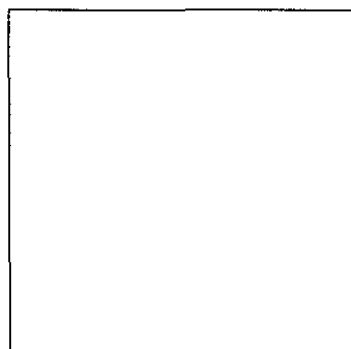
Management and Employees

We have previously notified shareholders of the appointment of Mark Hesketh to the Board as Group Finance Director and Company Secretary last September and welcomed David Booth's continuation on the Board as a non-executive Director.

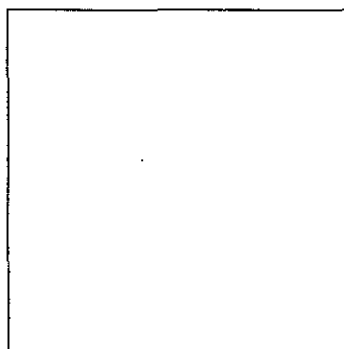
This year has not been an easy one following the unsettling elements of the previous financial year. Our employees have shown considerable forbearance for which we would thank them, as well as for their hard work and commitment.

Statement of Prospects

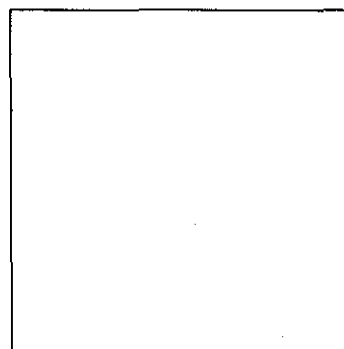
We continue to work towards securing real trading improvements, following a year in which some progress was made. The coming financial year should see further improvement as we reduce the breadth of our activities, build on areas of strength and focus on improving both the pace of change and operational effectiveness.



Terrazzo floors are practical, hardwearing and very easy to clean. Renowned for their durability, with proper care, Terrazzo floors will outwear many other flooring materials.

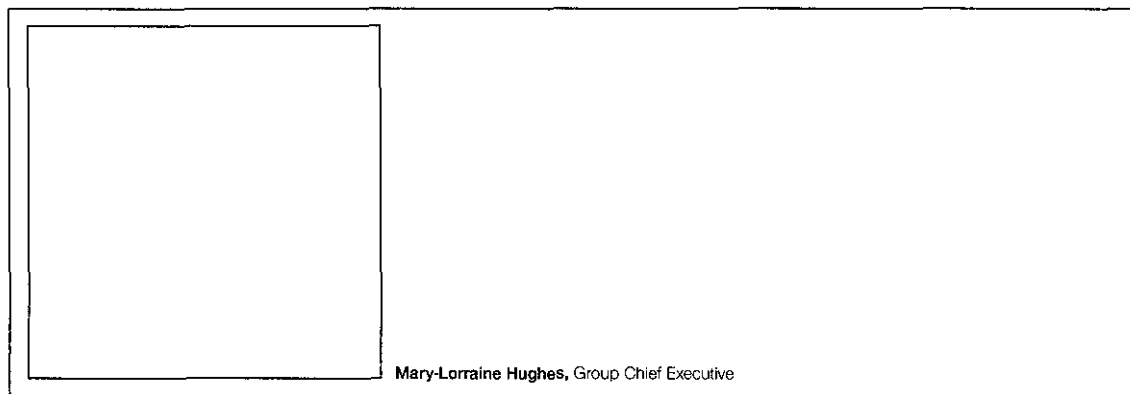


Dorset Tessella, a range of mosaic borders, panels and patterns complementing standard Dorset floor tiles, offers a convenient and simple way of achieving authentic Victorian floor designs.



Porcelain Floor Tiles: unglazed mingles, granites and solid colours are exceptionally durable and frost proof.

Quiligotti Terrazzo and Quiligotti Access Flooring reported record profits. Pilkington's Tiles went through a year of considerable change and achieved a modest improvement in profitability.



Introduction

Operational performance across the Group presented a mixed picture in 2001-2002. Quiligotti Terrazzo and Quiligotti Access Flooring reported record profits. Pilkington's Tiles went through a year of considerable change and achieved a modest improvement in profitability. Quiligotti Contracts, the supply and fix business, reached its targeted level of sales but continued to be hampered by claims relating to past work, and despite a far more professional approach, again returned a loss. A year ago we said that the contribution and benefit to be derived from each constituent part of the Group would be considered with care: in light of this it has been decided to close Quiligotti Contracts Limited during the next twelve months.

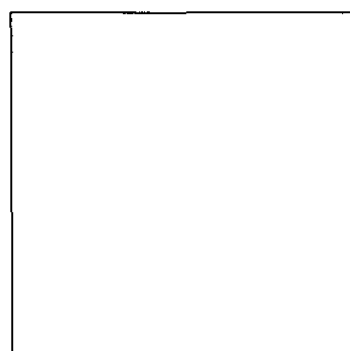
Group operating profits before exceptional items have risen by 27% (£296,000) due to improvements in all three continuing businesses, despite turnover having fallen by 2% (£746,000). This fall was primarily the result of action taken in Pilkington's Tiles to eliminate marginal business.

A record profit year. The operational actions taken, strong production performance and the continuing support of our key customers have all contributed to this achievement.

Terrazzo		
	2002	2001
	£'000	£'000
Sales	4,768	4,184
Operating profit before exceptional items	1,146	986
Exceptional items	-	(218)
Operating profit	1,146	768



Bespoke Service An almost infinite variety of designs and special effects can be created with our bespoke sampling service. This allows the client to mix and match their own colours for a totally individual look.



Terrazzo Tiles pressing operation.

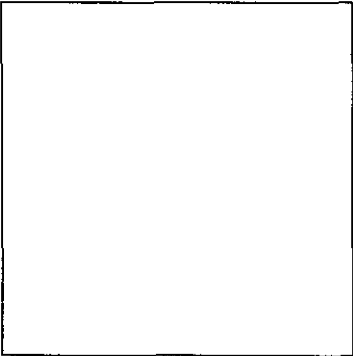
To be able to report a record profit year is gratifying. The operational actions taken, as anticipated in last year's report, the appointment of a new Sales Director last September, strong production performance levels, and by no means least the continuing support of our key customers, have all contributed to this achievement.

The new slip resistant terrazzo system of riven textured tile and penetrating seal was launched at last October's Built Environment Exhibition in London, and has generated very significant interest. This has not diminished the profile of our traditional terrazzo product which won the 2001 'Contract Floors' Supplier Award in the marble and terrazzo category.

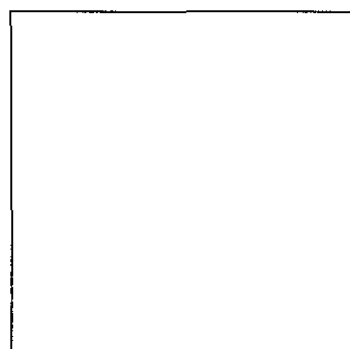
A considerable amount of work is being devoted to rejuvenating interest in terrazzo for use in non-retail environments and achieving novel installations will be a particularly important priority for the coming year. This initiative is being assisted by the new 'Terrazzo Naturals' collection, which exploits the contemporary demand for materials such as limestone and soapstone, by suspending small marble and granite aggregates in natural coloured grounds.

A record profit year was achieved by the professional management of this market sector. The consistently strong performance of this business encourages further investment in its' careful expansion.

Access Flooring		
	2002	2001
	£'000	£'000
Sales	3,106	3,470
Operating profit before exceptional items	464	378
Exceptional items	-	-
Operating profit	464	378



Intec panels: factory-bonded with polished porcelain ceramic tiles providing a clean, modern, flexible working environment.



Microfloor 600 benefits from the small number of components employed in its construction, there are no metallic parts contained in the basic system eliminating the possibility of corrosion or delamination.

A record profit year for the Access Flooring business was achieved by the professional management of this particular market sector against a background of increasing pressure on margins.

This has resulted from Access Flooring's ability to satisfy the various requirements of our clients, by offering Quilfloor 600, a traditional steel encapsulated product, Microfloor 600, an extremely competitive alternative and the Intec range which allows hard finishes such as marble, ceramic and hardwood to be factory applied to the panels. In addition, diversification into the hardwood flooring sector has proved to be successful and is targeted as a growth area.

The consistently strong performance of this business encourages further investment in its careful expansion whilst maintaining strict operational and cost control: this encapsulates the plan for the coming year.

The planned remedial actions and the decision not to pursue less profitable business have had a positive impact and turned last year's pre-tax loss into a profit.

Ceramics		
	2002	2001
	£'000	£'000
Sales	21,715	23,058
Operating profit before exceptional items	566	447
Exceptional items	(110)	(1,216)
Operating profit/(loss)	456	(769)

Pilkington's **Woolliscroft**
CERAMIC TILES

Versatile: extremely durable frost and slip resistant unglazed floor tiles for both interior and exterior use.

The 6% decline in ceramic tile sales reflects not only a tough marketplace, exacerbated by the continuing strength of sterling but also the deliberate decision not to pursue less profitable business. This, together with the planned remedial actions referred to in last year's report, has had a positive impact and turned last year's pre-tax loss into a profit.

The new wall tile kiln at the Manchester factory, the full commissioning of which was delayed by structural faults is now performing at close to targeted levels and is expected to contribute positively to our ability to flex and respond to customer requirements.

We now have a far more effective and responsive warehouse and distribution organisation, which has been acknowledged by a number of our customers. They have also seen greater analysis of sales data and market feedback which allows for more targeted initiatives.

However, a considerable amount remains to be accomplished, such as:

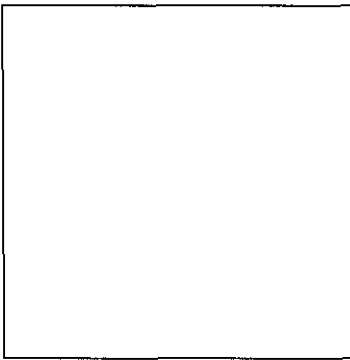
- ◆ even tighter cost control to offer more competitive pricing: This means a more rigorous approach within all operational areas including production and purchasing.
- ◆ the development of more targeted product ranges offering real value for money, consisting of fewer line items and with range specific marketing: The new 'Directions' wall tile collection, illustrated within this report, reflects this requirement perfectly and is already selling well.
- ◆ ongoing product range rationalisation: In the past year about a third of the items in the portfolio have already been discontinued or earmarked for retirement.

- ◆ a more comprehensive portfolio: Products which cannot be manufactured are being sourced. This area of activity is already showing positive signs for development.
- ◆ adjusting sales team responsibilities: 'Sector champions' will be concentrating on each route to market including distribution, multiple retail, housebuilding, industrial and commercial specification. A new Sales Director is currently being sought, for the Ceramic business, to pursue this focused approach further.

Our clear intent is not only to grow the tile business, but to further improve its profitability. Some areas of business where margins have become increasingly slim have been deliberately reduced or eliminated. This contributed to disappointing third quarter sales levels, but in the fourth quarter of the year turnover was far more positive.

We have continued to experience problems and, after careful consideration, it has been decided to withdraw from this activity.

Supply and Fix		
	2002	2001
	£'000	£'000
Sales	4,239	3,863
Operating loss before exceptional items	(156)	(92)
Exceptional items	(54)	(353)
Operating loss	(210)	(445)



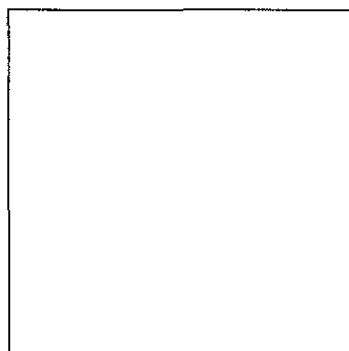
Quilgotti Terrazzo tiles floor
Liverpool Street Station

The supply and fix business has again returned a loss as we continued to experience problems achieving acceptable margins commensurate with the significant risks and levels of investment associated with this activity.

After careful consideration it has been decided that we will largely withdraw from this activity during the next financial year. This will allow us to increase our focus on and support for our other businesses, notably Quilgotti Access Flooring which continues to develop.

This decision will unfortunately mean the potential loss of about 20 jobs over the next year, but it is hoped that a number of people can be employed in other areas of the Group.

At present Quilgotti Contracts Limited fixes less than 10% of the Terrazzo tiles manufactured by Quilgotti Terrazzo, which of course will no longer be possible. However, management will work closely with key tile installers to ensure that future sales of Terrazzo tiles are fully supported.



Dorset Tetra: attractive slip resistant floor tiles, ideal for wet zones, changing areas, food processing areas and light industrial applications.

Main picture
Directions Rustic Collection: the honest charm of stone lifted by a hint of mineralised sparkle, enhanced by harmonious mosaics.

Conclusion

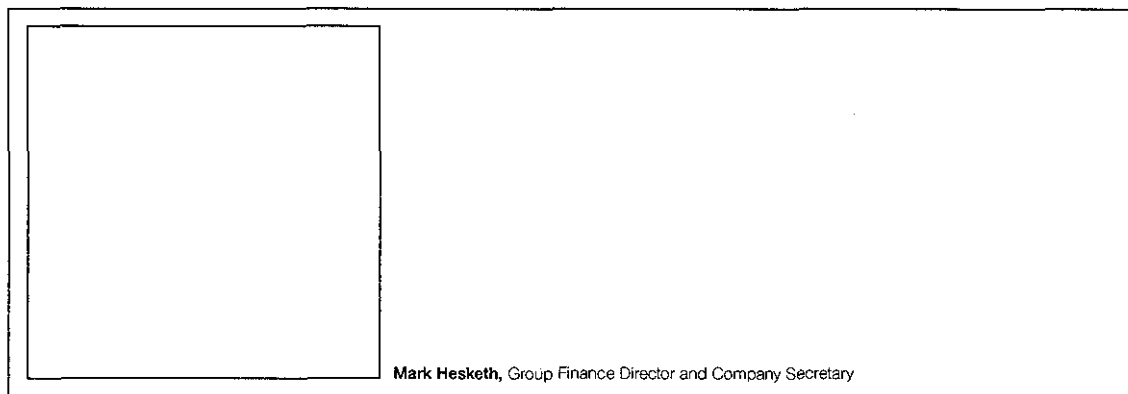
Our product and service portfolio is being honed to closely reflect the aesthetic and functional needs of the market and to offer real value.

Not only will we continue to benefit from the specialist skills within the Group, but will also further exploit the potential synergies between Group products in specific areas of the continuing businesses. This approach will be underlined by the opening of our new showroom this summer. The new location at the Building Centre in London, will showcase all Group products and services, will provide a suitable environment for meeting existing customers, and is ideally situated to interest new clients.

Our priorities for all the businesses will be to:

- ◆ reduce the cost base of all our activities more aggressively and thereby;
- ◆ offer increasing value for money enabling us to;
- ◆ respond very specifically to customer requirements.

We stated in last year's annual report that we would be working to achieve a lower level of gearing during the period. Gearing has fallen to 21.9% from 40.2% at the previous year end.



Profit before Exceptional Costs and Tax

Profit before exceptional costs, interest and tax of £1.4 million has improved from £1.1 million in the previous period. This is largely due to excellent trading performances in our Terrazzo and Access Flooring activities. The ceramics business also saw an improvement in profitability despite a decrease in turnover, as payroll and other operating costs were also reduced in response to the lower activity. The supply and fix business performed poorly although activity increased and, as noted in the Chairman's Statement, it has been decided to withdraw from this activity during the next financial year.

Interest costs of £0.4 million (2001: £0.5 million) benefited from a reduction in interest rates and the lower level of borrowings in the latter part of the year. It should be noted that £0.1 million of interest was capitalised as part of the small tile kiln project during the year ended 31 March 2001.

Exceptional costs

Exceptional costs, which were all incurred in the first half of the year, include:-

- ◆ £54,000 for provisions against old tile fixing contract debts.
- ◆ £110,000 for redundancy costs following the investment in new manufacturing technology.

Tax

The tax charge of £0.18 million is reduced by the release of provisions in subsidiary companies following the agreement of prior year liabilities.

Following the implementation of FRS 19 'Accounting for deferred tax', the prior year comparatives have been restated. The effect has been to reduce opening net assets at 31 March 2000 by £779,000. Earnings per share have also been restated. In addition, the loss after tax for the year ended 31 March 2001 has been reduced by £70,000. The current year tax charge has been increased by £114,000 as a result of the adoption of FRS 19.

Land and Buildings

During the year, as noted in recent announcements and in the Chairman's Statement, we have valued our land and buildings both at Poole and Clifton. This has resulted in an increase in the existing use value of £471,000 and this has been incorporated in our financial statements.

Capital Structure

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

	2002 £'000	2001 £'000
Net debt		
Finance leases and hire purchase contracts	598	965
Cash at bank	(500)	(2)
Bank overdrafts	-	4,282
Bank Loans	3,000	-
	3,098	5,245
Shareholders' funds		
Equity	14,163	13,036
	17,261	18,281

Our closing level of debt is £3.1 million. Of this total, £0.6 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. On 1 October the company entered into a five year term loan agreement to finance the recent investment in the small tile kiln. As at 31 March 2002 £3.5 million of this £4.75 million facility had been drawn down and the balance remaining at that date was £3.0 million. The Group also has a working capital facility of £3.2 million which was not being utilised at the year end as we were holding cash balances of £0.5 million. Both the term loan and working capital facilities carry an interest cost related to base rates.

We stated in our Interim Announcement that no dividend would be paid as the Board were focused on the repayment of debt. This policy continues but in addition, due to the existence of a deficit on the Company's profit and loss account, we are unable to pay a dividend at the year end. This will be addressed by the reorganisation of the Company's capital and reserves, discussed below.

Investment and Use of Funds

Following last year's large investment in the new small tile kiln, levels of capital expenditure have reduced significantly as planned and the total invested in fixed assets during the year was £0.8 million (2001: £4.7 million). The majority of this was related to the completion of the small tile kiln project. The remainder of our capital investment was limited to spend on periodic replacement of equipment and total spend was well below depreciation.

We stated in last year's Annual Report that we would be working to achieve a lower level of gearing during the period. Gearing has fallen to 21.9% from 40.2% at the previous year end. As noted earlier, however, we have yet to complete final payments with regard to the new kiln and if these are taken into account our gearing would rise to 31%. We are committed to reducing gearing further over the next financial year.

Reorganisation

We are currently part way through a capital restructuring programme. This has seen the divisionalisation of the business and net assets of Quilgott's Terrazzo Limited and Woolliscroft Tiles Limited into our main trading subsidiary, Pilkington's Tiles Limited and the transfer of that company to the direct ownership of Pilkington's Tiles Group plc, it being previously a subsidiary of Dayamber Limited, a dormant subsidiary holding company. Dayamber Limited has now been put into liquidation. This has resulted in a write down in the Company's investment in Dayamber Limited and a substantial deficit in the reserves in Pilkington's Tiles Group plc. It is also proposed that, if approved by shareholders and, subsequently, by the High Court, the deficit that has arisen on the profit and loss account of the Company as a result of this corporate restructuring programme should be eliminated and, further, that distributable reserves be created, by transferring to the profit and loss account of the Company the sums currently standing to the credit of the Company's capital redemption

Financial Review

reserve and share premium account. A detailed explanation of the special resolutions to be put to shareholders at the forthcoming Annual General Meeting concerning this proposal, and other matters to which it is subject, appear on pages 19 and 20 of the Directors' Report. The changes to the balance sheet that are proposed are designed to facilitate the Company paying dividends in due course if, subject to future trading performance, that is the course that the Directors wish to recommend. An illustrative proforma balance sheet appears below. This reorganisation is designed to simplify our corporate and capital structure.

The proforma Group consolidated balance sheet assuming the completion of the restructuring is set out below.

	31 March 2002 £'000	Adjustments £'000	Adjusted balance sheet following Re-organisation £'000
Capital and Reserves			
Share Capital	9,247	-	9,247
Share Premium Account	25,429	(25,429)	-
Capital Redemption Reserve	645	(645)	-
Merger Reserve	(1,001)	1,001	-
Revaluation Reserve	1,581	-	1,581
Profit and Loss Account	(21,738)	25,073	3,335
Equity Shareholders' funds	14,163	-	14,163

Derivatives and other Financial Instruments

The Group's principal financial instruments, other than derivatives, comprise finance leases, hire purchase contracts, cash and bank loans and overdrafts. 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.

There were no rate cap transactions outstanding at the year end.

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 2001.

Interest Rate Risk

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

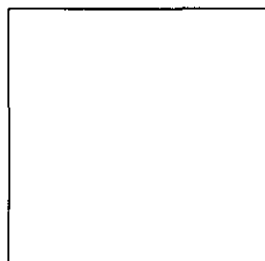
Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, bank loans, finance leases and hire purchase contracts. Short term flexibility for working capital requirements is met by bank overdraft 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. The final stage payments for the recent capital investment programme for wall tiles are due to be made in Euro and this has been forward covered. 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.

Directors and Advisers



Secretary

Mark Hesketh

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Stockbroker and Financial Adviser

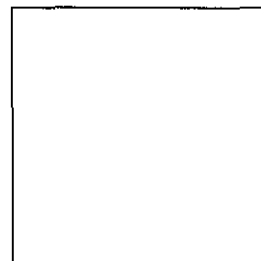
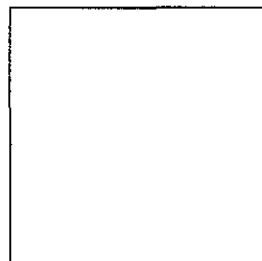
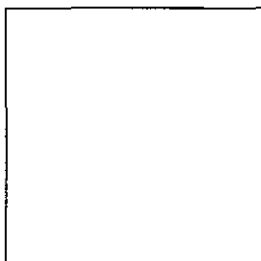
Old Mutual Securities,
2 Lambeth Hill,
London EC4V 4GG

Registrars

Computershare Services plc,
PO Box 82, The Pavilions,
Bridgwater Road,
Bristol BS99 7NH

Left to right:

Tony Palmer, Non-Executive Chairman
Mary-Lorraine Hughes, Group Chief Executive
Mark Hesketh, Group Finance Director and Company Secretary
David Booth, Non-Executive Director



Tony Palmer,

Non-Executive Chairman

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 65.

Mary-Lorraine Hughes,

Group Chief Executive

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 50.

Mark Hesketh,

Group Finance Director and Company Secretary

Appointed Group Finance Director in September 2001. Mark qualified as a Chartered Accountant in 1984 whilst working for Touche Ross in Manchester, and then joined Cabot Corporation, Boston, Massachusetts. After a further period with Touche Ross, he joined Greenway Holdings plc in 1990 as Finance Director, latterly assuming the role of Group Deputy Chief Executive and Finance Director. Age 43.

David Booth,

Non-Executive Director

Appointed Non-executive Director in September 2001, on his retirement as Group Finance Director for the company, a position he had held since July 1997. He had previously held senior financial positions with a number of other companies within the BTR Group, including Pilkington's Tiles Ltd as Finance Director. Age 54.



The Directors present their report and accounts for the year ended 31 March 2002.

Accounts and dividends

The Directors submit the audited accounts of the Group for the year ended 31 March 2002. The profit for the year amounts to £656,000 (2001 – loss of £677,000).

The Directors do not recommend a final ordinary dividend. No interim dividend was paid (2001: 0.2p). The total dividend on ordinary shares amounts to £nil (2001: £369,898).

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, the manufacture, marketing and installation of terrazzo floor tiles, and the installation of raised access flooring.

A review of the business and an overview of future developments have been included in the Chief Executive's Review on pages 8 to 13.

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 raised access floors.

Directors and their interests

The beneficial interests of the Directors of the Company and their families at 31 March 2002 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:

	31 March 2002	1 April 2001 or subsequent date of appointment
	Beneficial	Beneficial
H A (Tony) Palmer	112,346	112,346
D J Booth	3,440,508	3,440,508
M-L Hughes	366,000	116,000
M J Hesketh	196,560	–

The Director retiring by rotation is D J Booth who, being eligible, offers himself for re-election.

M J Hesketh having been appointed during the year offers himself for election to the Board.

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 23 to 25.

There have been no changes to the Directors' interests between 31 March 2002 and 17 May 2002.

Substantial shareholdings

As at 17 May 2002 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	%
J J Gallagher Limited	13,470,000	7.28
Stable Management Limited	10,200,000	5.52
Fidelity Investment Management	7,350,000	3.97

Supplier payment policy

The Group does not impose standard payment terms on its suppliers but agrees specific terms with each. It is the Group'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 no political or charitable contributions 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 via a regular system of team briefing. Health and Safety Committees are in place at the Group's factories. Employees participate directly in the success of the business through the Group's Save As You Earn share scheme.

Annual general meeting

Resolution 5 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 £3,615,413 which represents approximately 38% of the nominal amount of issued ordinary share capital of the Company as at 17 May 2002. 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 5 will be proposed as an ordinary resolution.

Resolution 6 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 17 May 2002. 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 6 will be proposed as a special resolution.

Resolution 7 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 affect 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 17 May 2002), 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 7 will be proposed as a special resolution.

Resolutions 8 and 9 are each to be proposed at the Annual General Meeting ("AGM") as special resolutions, and are the capital reduction programme referred to in the Chairman's statement. Resolution 8 seeks the approval of shareholders to the cancellation of the share premium account of the Company, which currently stands in the books of account of the Company in the sum of £25,429,000; and resolution 9 seeks the approval of shareholders to the cancellation of the capital redemption reserve of the Company, which currently stands in the books of account of the Company in the sum of £645,000. In this section, these proposals are collectively and individually referred to as the "cancellations".

Share premium arises on the issue by the Company of shares at a premium to their nominal value, and the premium is credited to the share premium account. The capital redemption reserve arises on the redemption or purchase by a company of its own shares from distributable reserves, and is the amount by which the issued share capital of the company has been reduced as a result of the redemption or purchase.

Both the share premium account and capital redemption reserve are treated by statute as undistributable capital reserves unless and until their reduction is, first, approved by the shareholders by special resolution and, second, confirmed by order of the High Court on application to it by the Company following the approval by shareholders. The cancellation of the share premium account and the capital redemption reserve takes effect upon the court's order being registered by the Registrar of Companies.

Pilkington's

Accordingly, if either or both of special resolutions 8 and 9 are duly passed at the AGM, the Company proposes thereafter to apply to court for its confirmation. In order to obtain the confirmation of the High Court, the Company will need to demonstrate to the satisfaction of the High Court that no creditor of the Company who has not consented to the cancellations will be prejudiced by them. At present, it is anticipated that the creditor protection will take the form of an undertaking by the Company to the Court not to treat as distributable any sum realised following the cancellations becoming effective which represent the realisation of hidden value in the balance sheet as at the date upon which the cancellations take effect together with an amount equal to the amount by which the cancellations exceed the amount of the deficit on the profit and loss account of the Company. However, the precise nature of any undertaking required of the Company, its terms and duration, will be subject in due course to consideration by the Court and discussion with the Company's advisers. The Board reserves the right to abandon or discontinue any application to the High Court if the Board believes that the terms required in order to obtain the confirmation of the High Court are unsatisfactory to the Company.

The proposed cancellations do not affect the voting or dividend rights or rights on a return of capital of shareholders.

Auditors

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

By order of the Board

M J Hesketh

Company Secretary

17 May 2002



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.

The workings of the board and its committees

The Board

The Board currently comprises two non-executives, including the independent non-executive Chairman, and two executive Directors. The biographies of the Directors appear on page 17. 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 26.

The Board meets every month, reviewing trading performance, ensuring adequate funding, setting and monitoring strategy, examining major acquisition possibilities and reporting to Shareholders as required. 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.

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

Nomination Committee

The Board have given due consideration to the establishment of a Nomination Committee. 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, D J Booth. 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 23 to 25.

Audit Committee

The Audit Committee, which is chaired by H A (Tony) Palmer, comprises the non-executive Directors and M-L Hughes. The Committee provides a forum for reporting by the Group's external auditors. Meetings are also attended, by invitation, by the Finance 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 the external auditors. The Audit Committee keeps under review the cost effectiveness and the independence and objectivity of the external auditors.

Internal control

The Board is responsible for establishing and maintaining the Group's system of internal 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 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.

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.

The Board has considered the need for an internal audit function but has decided that the size of the Group does not justify it at present. The Board will review this decision again in the current year.

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 reviews the effectiveness of the system of internal control and reports its conclusions to the Board.

Communications 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 with the chance to see facilities, ask questions and to understand better the Group's operations.

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

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 the perception of operating companies compared to competitors in the marketplace.



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 a car and health care.

Bonuses

Service contracts make provision for an annual bonus of up to 30% of salary dependent upon the actual performance of the Group compared to targets set out at the beginning of the financial year by the Remuneration Committee.

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

Certain 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.

Pension benefit earned by the directors (note [1]):

Name of Director	Age at 31 March 2002 £'000	Directors' contribution in the year (note [2]) £'000	Increase in accrued pension during the year (note [3]) £'000	Accumulated total accrued pension at 31 March 2002 £'000
D J Booth	54	2.2	1.7	54.7
M-L Hughes	50	6.9	2.9	7.0

The following is additional information relating to Directors' pensions:

- Normal retirement age: 60.
- Spouse's and dependants' pensions: 2/3rds of members pension on death both before and after retirement.
- Early retirement rights: Members can retire if aged over 50 with Company and Trustee consent. Pensions are reduced for early payment.



Pension Entitlements (continued)

d) Pension increases: A guaranteed increase on the pension in excess of the Guaranteed Minimum Pension of the increase in the Retail Prices Index subject to a maximum of 5% p.a. and a minimum of 3% p.a.

e) Other discretionary benefits: None.

Notes

[1] The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year.

[2] These relate to the contributions paid or payable in the year by the Directors under the terms of the scheme.

[3] The increase in accrued pension during the year excludes any increase for inflation.

Members of the scheme have the option to pay Additional Voluntary Contributions; neither the contributions nor resulting benefits are included in the above tables.

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

A contribution equivalent to 5% of annual salary including contracted bonus is paid into a personal pension arrangement for M J Hesketh.

H A (Tony) Palmer, non-executive Director, does not participate in any of the Group pension schemes and does not receive any contribution to personal pension arrangements.

Directors' remuneration

	Salary/ fees £	Benefits £	Bonuses £	Total 2002 £	Total 2001 £	Pension payments 2002 £	Pension payments 2001 £
Executive							
M-L Hughes	130,002	12,817	-	142,819	147,226	5,200	5,017
M J Hesketh (appointed 03.09.2001)	49,584	6,391	-	55,975	-	1,417	-
I Crowther (resigned 03.11.2000)	-	-	-	-	138,059	-	-
Non-executive							
H A (Tony) Palmer	30,000	-	-	30,000	40,000	-	-
D J Booth	53,334	28,879	-	82,213	115,460	-	-
P R McEnhill (resigned 23.03.2001)	-	-	-	-	17,500	-	-
	262,920	48,087	-	311,007	458,245	6,617	5,017

Of the above amount paid to D J Booth in the year £70,547 relates to his service as an executive Director until 3 September 2001.



Interests in options

Executive Share Option Scheme

	Date of grant	Options over ordinary shares of 5p each fully paid Number of options	Exercise period		Exercise price per share
			from	to	
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 June 06	14.75p
M J Hesketh	23 Nov. 01	750,000	23 Nov. 04	22 Nov. 11	5.00p
	23 Nov. 01	500,000	23 Nov. 04	22 Oct. 08	5.00p

Options totalling 781,778 shares awarded to a previous Director, I Crowther, lapsed during the year.

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.

The market value of the Company's ordinary shares during the year was in the range from 3.75p to 6.25p, and was 5.25p at 31 March 2002. No options were exercised during the year.

Statement of Directors' Responsibilities in Respect of the Accounts

The logo for Pilkington's, featuring the company name in a stylized, cursive script font.

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 accounts.



We have audited the group's financial statements for the year ended 31 March 2002 which comprise Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Reconciliation of Consolidated Shareholders' Funds, Note of Historical Cost Profits and Losses, Group Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, and the related notes 1 to 24. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's Statement, Chief Executive's Review, Financial Review, Directors' Report, Corporate Governance Statement and Report on Directors' Remuneration. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 March 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Manchester

17 May 2002

Consolidated Profit and Loss Account

for the year ended 31 March 2002

Pilkington's

	Notes	2002 Before exceptional costs £'000	2002 Exceptional costs (Note 4) £'000	2002 Total £'000	2001 Before exceptional costs £'000	2001 Exceptional costs (Note 4) £'000	2001 Total £'000
Turnover:							
Continuing operations	2	33,479	-	33,479	34,225	-	34,225
Changes in stocks of finished goods and work in progress		244	-	244	1,274	1,027	2,301
Raw materials and consumables		9,624	-	9,624	8,451	-	8,451
Other external charges		8,897	54	8,951	9,730	846	10,576
Staff costs	5	11,153	110	11,263	11,768	129	11,897
Depreciation of tangible fixed assets		2,123	-	2,123	1,854	-	1,854
Amortisation of goodwill		47	-	47	53	-	53
		32,088	164	32,252	33,130	2,002	35,132
Operating profit/(loss):							
Continuing operations		1,391	(164)	1,227	1,095	(2,002)	(907)
Interest payable and similar charges	6	(387)	-	(387)	(368)	-	(368)
Profit/(loss) on ordinary activities before taxation	2&3	1,004	(164)	840	727	(2,002)	(1,275)
Taxation	7	(233)	49	(184)	143	455	598
Profit/(loss) for the financial year		771	(115)	656	870	(1,547)	(677)
Dividends							
- ordinary dividend paid	9	-	-	-	(370)	-	(370)
- ordinary dividend proposed	9	-	-	-	-	-	-
Profit/(loss) transferred to reserves	22	771	(115)	656	500	(1,547)	(1,047)
Earnings/(loss) per ordinary share							
- basic	10	0.42p		0.35p	0.47p		(0.37p)
- diluted	10	0.42p		0.35p	0.47p		(0.37p)

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

Prior year comparatives have been restated as a consequence of adopting Financial Reporting Standard 19 'Accounting for deferred tax'. See note 1b on page 33.

Other Primary Statements

for the year ended 31 March 2002



Consolidated Statement of Total Recognised Gains and Losses

	2002 £'000	2001 £'000
Profit/(loss) for the financial year	656	(677)
Revaluation of freehold land and buildings	471	1,110
Total recognised gains and losses relating to the year	1,127	433
Prior year adjustment	(779)	
Total gains and losses recognised since last Annual Report	348	

Reconciliation of Consolidated Shareholders' Funds

	2002 £'000	2001 £'000
Total recognised gains and losses	1,127	433
Dividends	-	(370)
Total movements during the year	1,127	63
Shareholders' funds at 1 April	13,036	12,973
Shareholders' funds at 31 March	14,163	13,036

Shareholders' funds at 1 April 2001 were previously £13,815,000 before the prior year adjustment of £779,000.

Note of Historical Cost Profits and Losses

	2002 £'000	2001 £'000
Reported profit/(loss) on ordinary activities before taxation	840	(1,275)
Historical cost profit/(loss) on ordinary activities before taxation	840	(1,275)
Historical cost profit/(loss) for the year retained after taxation and dividends	656	(1,047)

Prior year comparatives have been restated as a consequence of adopting Financial Reporting Standard 19 'Accounting for deferred tax'. See note 1b on page 33.

Balance Sheets

as at 31 March 2002

Pilkington's

		Group		Company	
	Notes	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Fixed assets:					
Intangible assets	11	836	883	-	-
Tangible assets	12	16,390	17,243	-	-
Investments	13	-	-	10,490	26,974
		17,226	18,126	10,490	26,974
Current assets:					
Stocks	14	5,044	5,276	-	-
Debtors	15	4,785	6,124	11,785	11,971
Cash at bank and in hand		500	2	-	-
		10,329	11,402	11,785	11,971
Creditors:					
Amounts falling due within one year	16	(10,121)	(14,909)	-	-
Net current assets/(liabilities)		208	(3,507)	11,785	11,971
Total assets less current liabilities		17,434	14,619	22,275	38,945
Creditors:					
Amounts falling due after more than one year	17	(2,178)	(604)	-	-
Provisions for liabilities and charges	18	(1,093)	(979)	-	-
Net assets		14,163	13,036	22,275	38,945
Capital and reserves:					
Called up share capital	21	9,247	9,247	9,247	9,247
Share premium account	22	25,429	25,429	25,429	25,429
Capital redemption reserve	22	645	645	645	645
Other reserve	22	-	-	-	3,337
Merger reserve	22	(1,001)	(1,001)	-	-
Revaluation reserve	22	1,581	1,110	-	-
Profit and loss account	22	(21,738)	(22,394)	(13,046)	287
Equity Shareholders' funds		14,163	13,036	22,275	38,945

Prior year comparatives have been restated as a consequence of adopting Financial Reporting Standard 19 'Accounting for deferred tax' and to correct an error in the allocation between reserves. See note 1b on page 33.

These financial statements were approved by the Board on 17 May 2002.

Signed on behalf of the Board

M J Hesketh
Director

Consolidated Cash Flow Statement

for the year ended 31 March 2002



	Notes	2002 £'000	2001 £'000
Cash inflow from operating activities	23	2,927	4,741
Returns on investment and servicing of finance:			
Interest paid		(352)	(275)
Interest element of finance lease rental payments		(63)	(93)
Net cash outflow from returns on investments and servicing of finance		(415)	(368)
Taxation:			
UK corporation tax paid		(69)	(519)
UK corporation tax refunded		536	257
Net tax refunded/(paid)		467	(262)
Capital expenditure:			
Payments to acquire tangible fixed assets		(841)	(4,774)
Receipts from sales of tangible fixed assets		9	10
Net cash outflow from investing activities		(832)	(4,764)
Equity dividends paid		-	(1,110)
Cash inflow/(outflow) before financing		2,147	(1,763)
Financing:			
Capital element of finance lease rental payments		(367)	(340)
New bank loans		3,000	-
Net cash inflow/(outflow) from financing		2,633	(340)
Increase/(Decrease) in cash	23	4,780	(2,103)

**1a 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 modified to include the revaluation of land and buildings and in accordance with applicable Accounting Standards in the United Kingdom, including Financial Reporting Standard 19 which applies for the first time this year. An explanation of the effect of FRS19 is set out in note 1b.

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 FRS10. 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 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

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 other than land used as a quarry.

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.

Interest on borrowings to finance major capital projects is capitalised up to the date of completion.

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 on all timing differences that have originated but not reversed by the balance sheet date, calculated at the rate at which it is anticipated the timing differences will reverse. This is subject to deferred taxation assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Deferred taxation is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets and liabilities are not discounted.

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 its useful economic life, 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 a defined benefit pension scheme. 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 in accordance with SSAP 24 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. The first year disclosures required under FRS17 or included in note 20

1b Prior year adjustments

The prior year comparatives have been restated to comply with FRS19 'Deferred Taxation'. The effect is to reduce 2001 losses after tax by £70,000 to a loss of £677,000 and to reduce opening net assets at 31 March 2000 by £849,000 from £13,822,000 to £12,973,000. Earnings per share have also been restated. The current year tax charge has been increased by £114,000 as a result of the adoption of FRS19.

In addition, a prior year adjustment has been made to the Group and Company reserves to correct an understatement of the Share Premium Account which arose due to an error in accounting for the premium arising on a share issue in 1997. This adjustment increases the balance on the Company's Share Premium Account at both 1 April 2001 and 31 March 2002 by £14,601,000 and reduces the balance on the Other Reserve by the same amount. The impact on the Group reserves is to increase the Share Premium Account at both 1 April 2001 and 31 March 2002 by £14,601,000 and to reduce the balance on the Profit & Loss Account reserve by the same amount.

This adjustment has no impact on the reported result or shareholders' funds of the Group and the Company for either the current or previous financial years.

Notes to the Accounts

for the year ended 31 March 2002

Pilkington's

2 Segment information

The analyses of sales by business group and geographical area and of profit or loss before taxation and net assets by business group are set out below:

	2002 £'000	2001 £'000
(a) Analysis of sales by business group		
Terrazzo	4,768	4,184
Supply & fix	4,239	3,863
Raised access flooring	3,106	3,470
Ceramics	21,715	23,058
Inter Company sales	(349)	(350)
Total Sales	33,479	34,225

	2002 £'000	2001 £'000
(b) Analysis of sales by destination		
UK & Republic of Ireland	32,118	32,871
Other Europe	762	247
Rest of the world	599	1,107
Total Sales	33,479	34,225

All sales originate from the United Kingdom.

	2002 £'000	2001 £'000
(c) Profit/(loss) before tax by business group		
Terrazzo	1,146	986
Supply & fix	(156)	(92)
Raised access flooring	464	378
Ceramics	566	447
Central costs	(629)	(624)
	1,391	1,095
Exceptional costs	(164)	(2,002)
	1,227	(907)
Finance costs	(387)	(368)
Profit/(loss) before taxation	840	(1,275)

Of the exceptional costs of £164,000 in 2002, £110,000 relates to Ceramics, and £54,000 to Supply and Fix. (2001: £1,216,000 relates to Ceramics, £218,000 to Terrazzo, £353,000 to Supply and Fix, and £215,000 to central costs).

All profits/(losses) before tax are generated in the United Kingdom.



2 Segment information (continued)

	2002 £'000	2001 £'000
(d) Net assets by business group		
Terrazzo	3,245	3,137
Supply & fix	444	1,059
Raised access flooring	171	157
Ceramics	14,844	14,520
Net operating assets	18,704	18,873
Tax, dividends and other corporate items	(1,443)	(592)
Net debt	(3,098)	(5,245)
Net assets	14,163	13,036

All net assets are located in the United Kingdom.

3 Profit/(loss) on ordinary activities before taxation

This is stated after charging:

	2002 £'000	2001 £'000
Depreciation and amounts written off tangible fixed assets:		
- owned	1,950	1,681
- held under finance leases and hire purchase contracts	173	173
Hire of plant and machinery under operating leases	273	303
Auditors' remuneration	40	46
Auditors' non audit fees	32	41

4 Exceptional costs

	2002 £'000	2001 £'000
Exceptional costs comprise:		
Provision against contract debts	54	353
Stock provisions	-	1,027
Settlement of legal disputes	-	80
Professional fees	-	135
Write-off fixed assets and related equipment	-	278
Redundancy costs	110	129
	164	2,002

Provision against contract debts in 2002 related to additionally identified items following the fundamental review of the ongoing business of the Group carried out last year.

In the year to 31 March 2002 redundancy costs relate to the review of production facilities following the installation of the new kiln technology.

Notes to the Accounts

for the year ended 31 March 2002

Pilkington's

5 Staff costs

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

	2002 £'000	2001 £'000
Wages and salaries	9,871	10,309
Redundancy costs	110	129
Social security costs	714	801
Other pension costs	568	658
	11,263	11,897

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

	2002 No.	2001 No.
Production and distribution	312	363
Contract work	38	61
Sales and administration	97	103
	447	527

Details of Directors' remuneration including pension entitlements and share options are included in the Report on Directors Remuneration on pages 23 to 25.

6 Finance costs

	2002 £'000	2001 £'000
On bank loans and overdrafts	324	275
Finance leases	63	93
	387	368

7 Tax on profit/(loss) on ordinary activities

(a) Analysis of charge/(credit) in the year

	2002 £'000	2001 £'000
Current tax:		
UK corporation tax on profits/(losses) of the year	254	(500)
Adjustments in respect of previous years	(184)	(28)
Total current tax (note 7(b))	70	(528)
Deferred tax:		
Origination and reversal of timing difference (note 18)	114	(70)
Tax on profit/(loss) on ordinary activities	184	(598)



7 Tax on profit/(loss) on ordinary activities (continued)

(b) Factors affecting the tax charge for the year

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £'000	2001 £'000
Profit/(loss) on ordinary activities before tax	840	(1,275)
Profit/(loss) multiplied by the standard rate of corporation tax in the UK of 30%	252	(383)
Effects of:		
Expenses not deductible for tax purposes	111	76
Capital allowances for the year in excess of depreciation	(104)	-
Depreciation for the year in excess of capital allowances	-	134
Adjustments to tax charge in respect of previous years	(184)	(28)
Utilisation of tax losses	-	(141)
Other short term timing differences	(10)	(64)
Other differences	5	(122)
Current tax charge/(credit) for the year	70	(528)

(c) Factors that may affect future tax charges

Based on current capital investment plans, the Group expects to continue to be able to claim capital allowances in excess of depreciation in future years.

Tax losses carried forward within the Group, relating to contracting operations, are £668,000 (2001: £668,000). Based on the plans to close these operations, the Group does not expect to be able to utilise these losses in the future and has therefore not recognised a deferred tax asset in respect of these losses.

No provision has been made for deferred tax on revaluation gains on land and buildings due to the existence of capital losses which are available for offset against such gains.

8 Loss 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 loss dealt with in the accounts of the parent Company was £16,670,000 (2001: loss of £512,000) before deducting dividends.

9 Dividends

	2002 £'000	2001 £'000
Equity dividends on ordinary shares:		
- interim paid Nil (2001: 0.2p)	-	370
- final proposed Nil (2001: Nil)	-	-
	-	370

Notes to the Accounts

for the year ended 31 March 2002

Pilkington's

10 Earnings/(loss) per ordinary share

	2002 Pence	2001 Pence
Earnings/(loss) per share:		
Earnings per share before exceptional costs	0.42	0.47
Attributable to exceptional costs	(0.07)	(0.84)
Earnings/(loss) per share	0.35	(0.37)
Diluted earnings/(loss) per share:		
Earnings per share before exceptional costs	0.42	0.47
Attributable to exceptional costs	(0.07)	(0.84)
Earnings/(loss) per share	0.35	(0.37)
	£'000	£'000
The calculation of earnings/(loss) per share is based on:		
Profit on ordinary activities after taxation before exceptional costs	771	870
Exceptional costs	(115)	(1,547)
Profit/(loss) on ordinary activities after taxation	656	(677)
Weighted average number of shares used in basic earnings per share:		
	Thousands	Thousands
Weighted average for the year	184,949.0	184,949.0

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

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

	Thousands	Thousands
Basic weighted average number of shares	184,949.0	184,949.0
Dilutive potential ordinary shares:		
– employee share options	–	–
	184,949.0	184,949.0

11 Intangible fixed assets

	£'000
Goodwill	
Cost	
Beginning and end of year	990
Amortisation	
Beginning of year	107
Provided during the year	47
End of year	154
Net book value:	
Beginning of year	883
End of year	836

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



12 Tangible fixed assets

Group

	Freehold land and buildings £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost or valuation:				
Beginning of year	3,810	20,647	216	24,673
Additions	40	666	135	841
Revaluation	471	-	-	471
Disposals	(50)	-	(71)	(121)
End of year	4,271	21,313	280	25,864
Depreciation:				
Beginning of year	206	7,150	74	7,430
Charge for year	69	1,985	69	2,123
Disposals	(38)	-	(41)	(79)
End of year	237	9,135	102	9,474
Net book value:				
Beginning of year	3,604	13,497	142	17,243
End of year	4,034	12,178	178	16,390
Net book value of leased assets included in the above:				
Beginning of year	-	1,553	-	1,553
End of year	-	1,380	-	1,380

The net book value of land, which is not depreciated, is £2,728,000 (2001: £2,257,000).

Included within the cost of plant and machinery is capitalised interest of £245,867 (2001: £245,867).

All freehold land and buildings are stated at valuation.

The freehold land and buildings were valued by Edward Symmons & Partners as at 19 March 2002, on the basis of existing use value in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. The historical cost of freehold land and buildings at 31 March 2002 is £2,690,000 (2001: £2,700,000), and the net book value on the historical cost basis at 31 March 2002 is £2,453,000 (2001: £2,494,000).

The open market value of freehold land and buildings at 19 March 2002 was £4,950,000.

The Company

The Company has no tangible fixed assets.

13 Fixed asset investments

	Company £'000
Investments in subsidiary undertakings (at cost)	
Beginning of the year	26,974
Written off on liquidation of Dayamber Limited	(25,603)
Investment in Pilkington's Tiles Limited	9,100
Investment in Royal Lancastrian Pottery Limited	19
End of year	10,490

Notes to the Accounts

for the year ended 31 March 2002

Pilkington's

13 Fixed asset investments (continued)

As part of a programme designed to simplify the corporate structure the trade and net assets of Wooliscroft Tiles Limited and Quiligotti Terrazzo Limited have been transferred during the period to Pilkington's Tiles Limited. This company, together with Royal Lancastrian Pottery Limited, has been transferred from the ownership of Dayamber Limited to be direct subsidiaries of Pilkington's Tiles Group plc. Dayamber Limited, which has been dormant for some time, has now been put into liquidation. The liquidator has made a final distribution of £9,343,000, resulting in a loss of £16,260,000. The loss represents a fall in the value of the investment in the shares of Pilkington Tiles Limited following difficult trading conditions in recent years.

Subsidiary companies:

The principal operating subsidiaries at 31 March 2002, all of which are wholly owned and registered in England and Wales, are:

Company	Business
Pilkington's Tiles Limited	Manufacture of ceramic and terrazzo tiles
Quiligotti Access Flooring Limited	Installation of access floors
Quiligotti Contracts Limited	Installation of terrazzo tiles
Quiligotti Terrazzo Limited	Non-trading (previously manufacture of terrazzo tiles)
Wooliscroft Tiles Limited	Non-trading (previously manufacture of ceramic tiles)

14 Stocks

	Group	
	2002	2001
	£'000	£'000
Raw materials and consumables	427	461
Work in progress	519	620
Finished goods and goods for resale	4,098	4,195
	5,044	5,276

The Company held no stocks as at 31 March 2002 and 31 March 2001.

15 Debtors

	Group		Company	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade debtors	4,325	5,157	-	-
Amounts owed by Group undertakings	-	-	11,785	11,971
Taxation repayable	-	536	-	-
Other debtors	7	-	-	-
Prepayments and accrued income	453	431	-	-
	4,785	6,124	11,785	11,971

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



16 Creditors: Amounts falling due within one year.

	Group		Company	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Bank loans and overdrafts (note 23c)	1,000	4,282	-	-
Obligations under finance leases and hire purchase contracts (note 19)	420	361	-	-
Trade creditors	5,214	6,237	-	-
Corporation tax	350	349	-	-
Other taxes and social security costs	1,252	1,534	-	-
Other creditors	1,885	2,146	-	-
	10,121	14,909	-	-

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

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

	Group	
	2002	2001
	£'000	£'000
Bank loan	2,000	-
Obligations under finance leases and hire purchase contracts	178	604
	2,178	604

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

	Group	
	2002	2001
	£'000	£'000
Within one year	447	422
Between one and two years	181	422
Between two and five years	-	211
	628	1,055
Less: finance charges allocated to future periods	(30)	(90)
	598	965

Finance leases and hire purchase contracts are analysed as follows:

	2002	2001
	£'000	£'000
Due within one year	420	361
Due after one year	178	604
	598	965

The bank loan is payable as follows:

	2002	2001
	£'000	£'000
Within one year	1,000	-
Between one and two years	1,000	-
Between two and five years	1,000	-
	3,000	-
Less included within amounts due within one year	(1,000)	-
	2,000	-

The bank loan is secured by a Fixed and Floating charge over the assets of all group companies.

The Company had no creditors falling due after more than one year at 31 March 2002 and 31 March 2001.

Notes to the Accounts

for the year ended 31 March 2002

Pilkington's

18 Provisions for liabilities and charges

Provisions for liabilities and charges comprise:

	Group 2002 £'000	2001 £'000
Deferred taxation	1,093	979

Deferred taxation has been provided as follows:

	Group 2002 £'000	2001 £'000
Excess of tax allowances over book depreciation of fixed assets	1,126	1,012
Other timing differences	(33)	(33)
	1,093	979

The movement on deferred taxation comprises:

	Group 2002 £'000
Beginning of year (as previously stated)	200
Prior year adjustment	779
Beginning of year (as restated)	979
Charged to profit and loss account for the year (note 7)	114
End of year	1,093

The prior year comparatives have been restated as a consequence of adopting Financial Reporting Standard 19 'Accounting for deferred tax'. See note 1b on page 33.

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 page 16. 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 £'000	Floating rate £'000	Fixed rate £'000
2002			
Total (all sterling)	3,598	3,000	598
2001			
Total (all sterling)	5,247	4,282	965

The floating rate financial liabilities comprise sterling loans and 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 1.5 years at a weighted average interest rate of 7.8%.



19 Derivatives and other financial instruments (continued)

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 (£ sterling is the functional currency):

	Net foreign currency monetary assets/(liabilities)	
	2002	2001
	£'000	£'000
French Francs	-	(2)
Italian Lire	-	(16)
Spanish Peseta	-	(109)
German Deutschmark	-	(193)
Euro	(539)	(179)
Australian Dollars	24	13
US Dollars	(77)	-
Total	(592)	(486)

Maturity of financial liabilities

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

	2002	2001
	£'000	£'000
In one year or less, or on demand	1,420	4,643
In more than one year, but not more than two	1,178	395
In more than two years, but not more than five	1,000	209
Total	3,598	5,247

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:

	2002	2001
	£'000	£'000
Expiring in one year or less	3,200	3,738
Expiring between two and five years	1,250	-
Total	4,450	3,738

Fair values of financial assets and financial liabilities

In the opinion of the Directors the fair value, at 31 March 2002 and 31 March 2001, of all primary financial instruments, being short and long term borrowings and cash, and derivative financial instruments, being interest rate caps and forward currency contracts, approximates to the carrying amount. The book value of derivative financial instruments is nil.



20 Pensions

The Group operates 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.

(a) A formal valuation was completed as at 1 January 2000. The key assumptions used were that the rate of return on investments exceeded the rate of salary growth by 2% and the rate of pension increases by 3.25%. The actuarial value of the assets (including those assets transferred from the A Quiligotti & Co. Retirement Benefits Scheme but excluding those assets in respect of the money purchase section – see below) of the scheme was £19,038,000 and represented 118.5% 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.

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.

The pension cost charged to profit and loss for the year amounted to £489,341 (2001: £580,453).

The FRS17 calculations for disclosure purposes have been based on the 1 January 2000 valuation results updated to 31 March 2002 by a qualified independent actuary. The major assumptions used by the actuary were:

	At March 2002
Discount rate	: 6.1%
Rate of increase in salaries	: 4.5%
Rate of increase in pensions in payment	: 3.3%
Inflation assumption	: 3.0%

The assets in the Scheme and the expected rate of return were:

	Long term rate of return expected at 31 March 2002 (per annum)	Value at 31 March 2002 £'000
Equities	8.3%	15,840
Property	8.3%	452
Gilts	5.3%	2,294
Cash	0.0%	447
		19,033

The following amounts at 31 March 2002 were measured in accordance with the requirements of FRS17:

	£'000
Total market value of Scheme assets	19,033
Present value of Scheme liabilities	(21,360)
Deficit in the Scheme	(2,327)
Related deferred tax asset	698
Net pension liability	(1,629)

Had the above amounts been recognised in the financial statements, the Group's net assets and profit and loss reserves at 31 March 2002 would be as follows:

	£'000
Net assets excluding pension liability	14,163
Pension liability	(1,629)
Net assets including pension liability	12,534
Profit and loss reserve excluding pension liability	(21,738)
Pension liability	(1,629)
Profit and loss reserve including pension liability	(23,367)



20 Pensions (continued)

The notional deficit under FRS17 reflects the different bases for valuing assets and liabilities compared to SSAP24, including the immediate impact of the fair value of assets at 31 March 2002, which have been affected by the poor performance of stock markets in recent times.

Whatever notional numbers are reported under FRS17 we remain committed to funding decisions based on our actuarial valuation, undertaken every three years and to balance the financial security of employees with the needs of the Group and its shareholders.

(b) The Pilkington's Tiles Pension Scheme also includes a section for a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in independently administered funds. Contributions to the defined contribution section are charged to the profit and loss account as they fall due. The pension cost charge represents amounts payable by the Group to the scheme during the year and amounted to £79,416 (2001: £76,791).

21 Called-up share capital

	2002 Number	2001 Number	2002 £'000	2001 £'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	184,948,954	9,247	9,247

Share Options

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	6,583,728	2,771,058
Granted	1,250,000	–
Lapsed	(1,485,167)	(1,576,837)
End of year	6,348,561	1,194,221

At 31 March 2002 options to purchase ordinary shares are outstanding as follows:

	Date of grant	Number of shares	Price	Date of exercise
Executive Share Option Scheme	23.09.92	9,000	100.00p	23.09.95 to 23.09.02
	20.07.94	20,000	18.50p	20.07.97 to 20.07.04
	22.07.97	242,424	24.75p	22.07.00 to 24.07.07
	22.07.97	1,707,576	24.00p	22.07.00 to 21.06.04
	06.07.99	881,351	14.75p	06.07.02 to 05.07.09
	06.07.99	644,065	14.75p	06.07.02 to 05.06.06
	22.11.99	225,055	13.33p	22.11.02 to 21.11.09
	22.11.99	1,369,090	13.33p	22.11.02 to 21.10.06
	23.11.01	750,000	5.00p	23.11.04 to 22.11.11
	23.11.01	500,000	5.00p	23.11.04 to 22.10.08
Save As You Earn Share Option Scheme	01.11.98	1,194,221	10.4p	01.11.03

Notes to the Accounts

for the year ended 31 March 2002

Pilkington's

22 Reserves

The movement on reserves in the year is as follows:

Group	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Revaluation Reserve £'000	Profit & Loss account £'000
At beginning of year (as previously stated)	10,828	645	(1,001)	1,110	(7,014)
Prior year adjustments:					
Correction of error in allocation to Share Premium account	14,601	-	-	-	(14,601)
FRS19 Deferred tax adjustment	-	-	-	-	(779)
At beginning of year (as restated)	25,429	645	(1,001)	1,110	(22,394)
Profit for the financial year	-	-	-	-	656
Revaluation of land & buildings	-	-	-	471	-
At end of year	25,429	645	(1,001)	1,581	(21,738)

The cumulative amount of goodwill written off at 31 March 2002 is £25,227,000 (2001: £25,227,000).

Company	Share premium £'000	Capital redemption reserve £'000	Other reserve £'000	Profit & Loss account £'000
At beginning of year (as previously stated)	10,828	645	17,938	287
Correction of error in allocation to Share Premium Account	14,601	-	(14,601)	-
At beginning of year (as restated)	25,429	645	3,337	287
Loss for the financial year	-	-	-	(16,670)
Transfer of realised loss on liquidation of Dayamber Limited	-	-	(3,337)	3,337
At end of year	25,429	645	-	(13,046)

23 Cash flow information

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

	2002 £'000	2001 £'000
Operating profit/(loss)	1,227	(907)
Depreciation charges	2,123	1,854
Loss on sale of fixed assets	33	171
Amortisation of goodwill	47	53
Decrease in stocks	232	2,028
Decrease in debtors	803	1,174
(Decrease)/increase in creditors	(1,538)	368
Net cash inflow from operating activities	2,927	4,741

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

	2002 £'000	2001 £'000
Increase/(decrease) in cash in the period	4,780	(2,103)
Cash outflow from decrease in lease financing	367	340
Cash inflow from new bank loans	(3,000)	-
Movement in net debt in the period	2,147	(1,763)
Net debt at 1 April	(5,245)	(3,482)
Net debt at 31 March	(3,098)	(5,245)



23 Cash flow information (continued)

(c) Analysis of net debt:

	Opening £'000	Cash Flow £'000	Closing £'000
Cash at bank and in hand	2	498	500
Overdraft	(4,282)	4,282	-
	(4,280)	4,780	500
Term Loan	-	(3,000)	(3,000)
Finance lease obligations	(965)	367	(598)
Total	(5,245)	2,147	(3,098)

(d) Cash flows relating to operating activities include the following outflows which relate to exceptional operating items:

	2002 £'000	2001 £'000
Settlement of legal disputes and legal costs	-	(80)
Redundancy costs	(110)	(129)
Professional fees	-	(100)
	(110)	(309)

24 Guarantees and other financial commitments

(a) Capital Commitments:

	2002 £'000	2001 £'000
Contracted by Group	118	197

(b) Contingent Liabilities:

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Guarantees in respect of bank borrowings of subsidiary undertakings	-	-	2,500	4,282
Guarantees in respect of hire purchase and finance lease obligations of subsidiary undertakings	-	-	598	965
	-	-	3,098	5,247

(c) Obligations Under Operating Leases:

Annual commitments under non-cancellable leases are as follows:

	2002		2001	
	Land & buildings £'000	Other £'000	Land & buildings £'000	Other £'000
Operating leases which expire:				
- within one year	-	235	-	56
- in two to five years	-	368	-	192
	-	603	-	248

The Company has no operating lease obligations (2001: £Nil)

Five Year Financial History

year ended 31 March

Pilkington's

	1998	1999	2000	2001	2002
	£'000	£'000	£'000	£'000	£'000
Turnover	29,667	39,973	43,485	34,225	33,479
Profit before interest and tax, and exceptional costs	1,931	3,569	4,186	1,095	1,391
Exceptional costs	(1,286)	(727)	(436)	(2,002)	(164)
Net interest payable	(541)	(454)	(447)	(368)	(387)
Taxation	-	(754)	(405)	598	(184)
Dividends	-	(989)	(1,135)	(370)	-
Retained profit/(loss) for the year	104	645	1,763	(1,047)	656
Dividends per share	-	0.5p	0.6p	0.2p	-
Net debt	(5,687)	(4,962)	(3,482)	(5,245)	(3,098)
Shareholders' Funds	11,693	12,220	12,793	13,036	14,163
Gearing	48.6%	40.6%	27.2%	40.2%	21.9%

Prior year comparatives have been stated as a consequence of adopting FRS 19.

Notice of Annual General Meeting



Notice is hereby given that the fourteenth 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, 25 July 2002, at 11.00 a.m., for the following purposes:

- 1 To approve and adopt the audited accounts for the year ended 31 March 2002, together with the Directors' and Auditors' reports.
- 2 To appoint Mr M J Hesketh as a Director.
- 3 To re-appoint Mr D J Booth as a Director, who retires by rotation.
- 4 To re-appoint Ernst & Young LLP as Auditors to hold office until the conclusion of the next general meeting of the Company at which accounts are laid for the Company 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 5 as an ordinary resolution and as to resolutions 6, 7, 8 and 9 as special resolutions of the Company:

5 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, grant options over, offer or otherwise deal with or dispose of any relevant securities (as defined for the purposes of that Section) up to an aggregate nominal amount of £3,459,622;
- (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 whichever is earlier; 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.

6 That

- (a) subject to the passing of resolution 5 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 ("Act") to allot for cash equity securities (as defined in Section 94 of the Act), pursuant to any general authority conferred on them pursuant to Section 80 of the Act, as if Section 89(1) of the 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 whichever is earlier; 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.



7 That pursuant to Article 11 of its Articles of Association and part V of the Companies Act 1985 ("Act") the Company be and is hereby generally and unconditionally authorised for the purpose of Section 166 of the Act to make one or more market purchases (within the meaning of Section 163 of the 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 per cent. 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 whichever is earlier; 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.

8 THAT the share premium account standing in the books of account of the Company at the date hereof be and the same is hereby cancelled.

9 THAT the capital redemption reserve standing in the books of account of the Company at the date hereof be and the same is hereby cancelled.

By order of the Board,

M J Hesketh
Company Secretary

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

17 May 2002

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 41 of the Uncertificated Securities Regulations 2001, specifies that only those Shareholders registered in the Register as at 11.00 am on 23 July 2002 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 23 July 2002 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 and a register of their interests 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.

