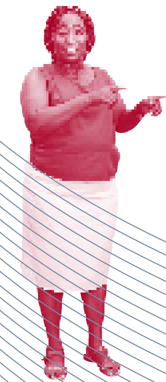


2005. Annual Report and Accounts

ANNUAL REPORT AND ACCOUNTS 2005

Designed by **The Chase**
Photography by **Michael Heffernan**

Welcome. 2005 has been another year of considerable progress for the PZ Cussons Group.

2005 has been another year of considerable progress although profit improvement has been restricted by trading losses in Russia.

This successful result has been achieved despite the challenging trading conditions with the weak US dollar and high oil prices impacting all our businesses.

In the year we have continued our growth strategy and our margin improvement programme.

In particular:
- The milk factory in Nigeria is now in production.
- The white goods venture with Haier in Nigeria is expanding rapidly.
- The brand purchases in the UK of Original Source and Charles Worthington are planned to grow in line with expectations.
- The new bar soap factory in Thailand is on schedule to be completed in October.
- The restructuring of our Eastern European business is progressing satisfactorily.
- The Chinese subsidiary has been sold.

In June 2005 shareholder approval was given for the enfranchisement of the 'A' non-voting shares and the repayment of our preference shares by a reduction of share capital. This exercise was considered by the board of directors to be an important step in ensuring that the company has a capital structure which is simple and attractive to investors. This is now complete.

Nigel Green, Group Chief Executive, will retire on 31st May 2006 after ten very successful years leading the Group through a period of significant growth and change.

Alex Kanellis, currently Deputy Chief Executive, will succeed Nigel as Chief Executive on 1st June 2006.

David Godwin will retire from the Board on 30th September 2005 after seven years. David's advice and work on behalf of the Group has been invaluable throughout this period of significant growth.

James Steel, currently head of Corporate Finance at Arbuthnot Securities, will be appointed a non-executive director on 1st October 2005.

Our strategic focus remains on growth in our key markets and margin improvement. Additionally, we continue to place great emphasis on the development of management and staff to ensure that we are best placed to take advantage of the growth opportunities going forward. In this respect I would like to thank all our staff, whose work and dedication have made these results possible.

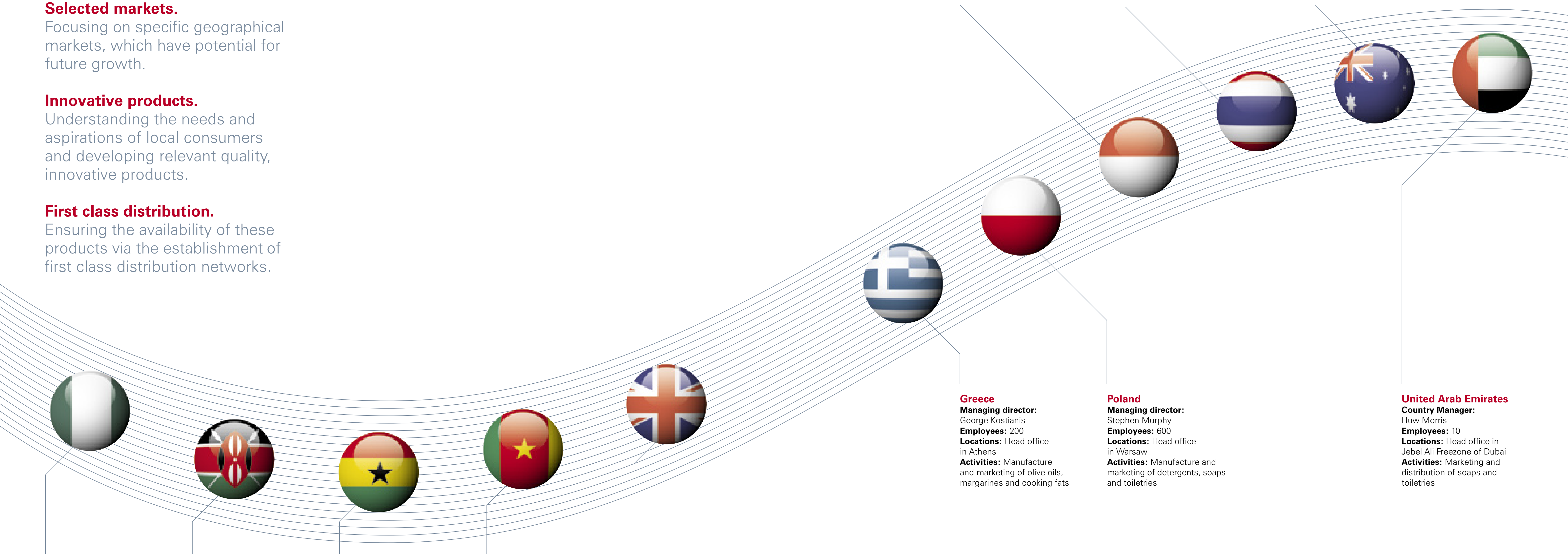
Anthony J Green
Chairman

Our international strategy. The PZ Cussons Group operates in Africa, Asia and Europe. We conduct our business in these regions according to our international strategy.

Selected markets.
Focusing on specific geographical markets, which have potential for future growth.

Innovative products.
Understanding the needs and aspirations of local consumers and developing relevant quality, innovative products.

First class distribution.
Ensuring the availability of these products via the establishment of first class distribution networks.



Nigeria
Chief executive:
Panos Varelas
Managing directors:
Costas Theodorakopoulos (Soaps and detergents), Ray Murphy (Health and beauty), Tolis Loizos (HPZ), Con Gendis (Nutricima), Christos Giannopoulos (Distribution)
Employees: 5,600
Locations: Head office in Lagos, manufacturing units in Ilupeju, Ikorodu and Aba
Activities: Manufacture and marketing of soaps, detergents, toiletries, feminine hygiene products, pharmaceuticals, packaging materials, white goods and milk

Kenya
Managing director:
Dimitri Papadimitriou
Employees: 520
Locations: Head office in Nairobi
Activities: Manufacture and marketing of soaps, toiletries, medicaments and household products

Ghana
Managing director:
Panos Mouchteros
Employees: 540
Locations: Head office in Accra
Activities: Manufacture and marketing of soaps, toiletries, cosmetics and pharmaceuticals

Cameroun
Managing director:
Richard Shepherd
Employees: 140
Locations: Head office in Douala
Activities: Manufacture and marketing of toiletries

United Kingdom
Managing director:
Chris How
Employees: 430
Locations: Head office in Manchester
Activities: Manufacture and marketing of soaps, toiletries and household products

Greece
Managing director:
George Kostianis
Employees: 200
Locations: Head office in Athens
Activities: Manufacture and marketing of olive oils, margarines and cooking fats

Poland
Managing director:
Stephen Murphy
Employees: 600
Locations: Head office in Warsaw
Activities: Manufacture and marketing of detergents, soaps and toiletries

Indonesia
Managing director:
George Sotiropoulos
Employees: 2,600
Locations: Head office in Jakarta
Activities: Manufacture and marketing of soaps, toiletries, baby products, powders, shampoos and lotions

Thailand
Managing director:
Gordon Robinson
Employees: 990
Locations: Head office in Bangkok
Activities: Manufacture and marketing of soaps, toiletries and dishwashing liquids

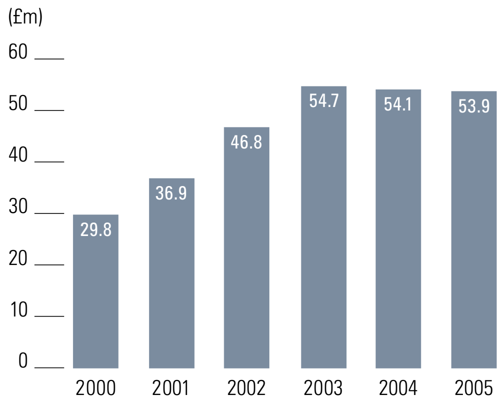
Australia
Managing director:
Chris Davis
Employees: 270
Locations: Head office in Melbourne
Activities: Manufacture and marketing of household detergents, bar soaps and toiletries

United Arab Emirates
Country Manager:
Huw Morris
Employees: 10
Locations: Head office in Jebel Ali Freezone of Dubai
Activities: Marketing and distribution of soaps and toiletries

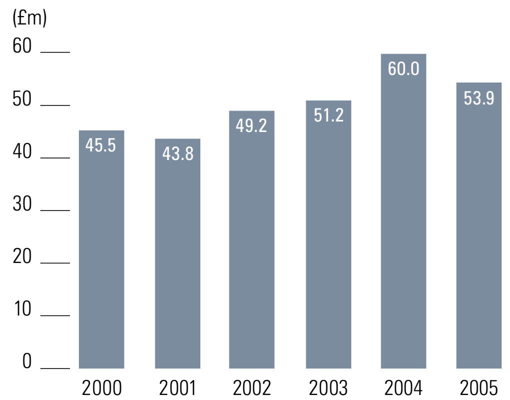
Highlights.

- Turnover increased by 5% to £480.1m from £457.9m.
- Overall, operating profits have largely been in line with plan, despite a weak dollar and the high cost of oil related materials. However our operations in Russia, which began in January 2004, produced operating losses of approximately £5m and so these were closed in Spring 2005. Pre-exceptional profits were £53.9m from £54.1m.
- Sterling strengthened against the dollar resulting in a reduction in turnover of £20m and in profits of £3.1m on translation.
- Strong performance from Nigeria, with operating profits up by 22%, and reorganisation into separate business units to bring greater focus to growth plans.
- Net exceptional charges of £4.7m were incurred in the year.
- Net funds at 31st May 2005, after initial acquisition payment of £23.0m for Charles Worthington, amounted to £74.0m.
- Proposed dividend increase for year of 10.2% to 35.25p from 32.00p.
- Our focus remains on increasing operating margins and pursuing growth in all units, particularly in Nigeria, the UK, Australia and Indonesia.

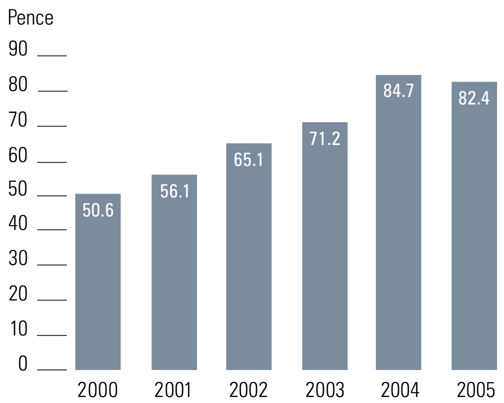
Operating profits before exceptionals



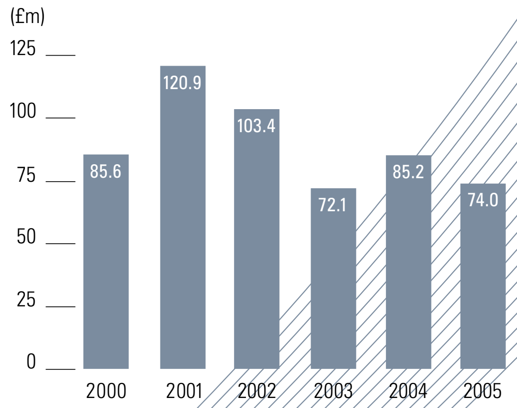
Pre-tax profits after exceptionals



Diluted earnings per share before exceptionals



Net funds



Investments
The value of our equity portfolio increased by 18% in the year to £18.8m from £15.9m. £3.0m has been taken to profit in relation to recognised gains and released provisions, leaving £2.8m of unrealised surplus at 31st May 2005.

Exceptional Items
During the year our China and Russia businesses were closed incurring exceptional costs of £3.4m and £1.7m respectively.

In addition, a provision of £4.9m has been made to cover committed costs in relation to the closure of the Nottingham soap factory. Realisations from the sale of the site are anticipated within three years.

Profits on disposal from the sale and leaseback of our head office and the sale of a UK warehouse amounted to £5.3m.

Dividend
The board is recommending a dividend increase of 10.2% for the year with a proposed final dividend of 26.60p (2004 – 23.95p) per share for a total of 35.25p (2004 – 32.00p).

Post balance sheet event
Following approval at an extraordinary general meeting of the company held on 28th June 2005, the share capital of the company has been restructured by the conversion of the 'A' non-voting shares into ordinary shares and the repayment and cancellation of the preference shares. Following approval of the High Court, this restructuring is now complete.

Outlook
PZ Cussons has a solid foundation for growth over the next few years and the Group's focus continues on improving margins.

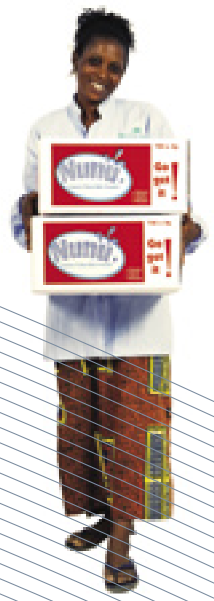
The balance sheet remains strong, giving adequate funds to finance opportunities for growth, particularly in Nigeria, where the relatively stable political situation and the strength of the economy, with high oil prices and natural gas coming on stream, give reasons for optimism. The debt forgiveness of $18 billion recently announced by the Paris Club of creditors may prove very important to Nigeria.

Performance by region

	Turnover (£m)		Operating profit before exceptional items (£m)	
	2005	Restated 2004	**2005**	2004
Europe	**213.0**	201.8	**21.2**	24.7
Africa	**159.4**	144.2	**20.8**	19.3
Asia	**107.7**	111.9	**11.9**	10.1
Total	**480.1**	457.9	**53.9**	54.1

An exciting future lies ahead for all of us at PZ Cussons.

Major projects. Significant investment in key markets ensures the Group is well placed for future growth.



Nunu milk
The new powdered milk brand, Nunu, has just been launched in Nigeria.

Nigeria

In Nigeria we have invested in a plan to expand the capacities of the detergent factory at Ikorodu by 15% and the soap factory at Aba by 30%.

We have also invested in new factories to:

- Manufacture refrigerators, freezers and air conditioners with our Chinese partners Haier. Current sales are in the region of £12m per annum up 50% on last year.
- Manufacture a new feminine hygiene range, with technical support from our Greek partner Mega. Current sales are in the region of £1m per annum up 35% on last year.

Furthermore, construction is now largely complete on our exciting new joint venture with the Irish company Glanbia Plc to invest $20m in a milk factory in Nigeria. The factory should be fully operational later in 2005 and will have the capacity for sales in excess of £50m per annum.

The powdered milk plant is now in production and a new brand, Nunu, has been launched. The evaporated milk plant will be in production in the Autumn. We are now investigating further opportunities to expand our nutritional foods business in Nigeria based on milk ingredients.

Indonesia

In Indonesia we have continued to invest in factory capacity and have recently purchased a new plot of land to enable us to build new factories as we further expand our product and brand ranges. Plans are now being finalised to build a factory to expand our Cussons Baby range. Nutritional foods are also being researched.

UK

In the UK, in the last three years, we have purchased the Original Source and Charles Worthington brands which we regard as having considerable potential.

White goods
Fridges, freezers and air conditioners are sold via a joint venture with Haier of China.

Brands. The PZ Cussons portfolio comprises a mix of international and local brands.

Global brands

With the recent acquisition of the Original Source and Charles Worthington brands, a mixed discipline team has been established to have responsibility for, and to give impetus to, the development of our key international brands – Imperial Leather, Cussons Baby, Carex, Morning Fresh, Original Source, and Charles Worthington – throughout all our existing units and to investigate potential in new markets such as the USA where Charles Worthington products are already known.

These brands represent approximately 50% of our global business and have five year growth targets in excess of 10% per annum.

Local brands

Local brands represent an important part of the PZ Cussons portfolio and are specifically developed to meet the needs of local consumers.

Examples include:
Detergents E (Poland), Radiant (Australia), Elephant (Nigeria)
Soaps Joy (Nigeria), Luksja (Poland), Duck (Nigeria, Ghana)
Toiletries and haircare Sweet Seventeen (Indonesia), Cussons Kids (Indonesia), Venus (Nigeria)

International brands
Developed for global markets, our international brands appeal to consumers worldwide.


Imperial Leather


Cussons Baby


Carex

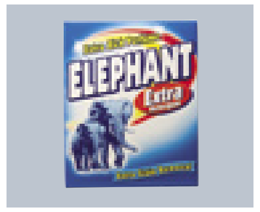

Original Source


Morning Fresh


Charles Worthington

Local brands
Specifically developed with local needs in mind, our local brands represent an important part of the PZ Cussons portfolio.

Robb



Elephant

Joy

Venus

Radiant


Trix

People. PZ Cussons people create a unique culture which encourages their long term development and enables them to realise their potential.

People development

A long term people development programme has been launched throughout all units, with a clear objective to improve the quality of our management resource both from within and by external recruitment.

The programme will identify and give career planning opportunities to individuals who display Group values and have the ability and potential to progress further.

The programme is set in the context of our commitment to establishing a working environment based on a transparent meritocracy and involving excellent local people in the future of their units, reducing our dependency on expatriate management.

Supply chain. A programme of supply chain optimisation is continually evolving to meet changing economic and commercial needs.

Supply chain
A comprehensive review of all stages of the supply chain has been undertaken.

Knowledge and experience
Our knowledge and experience of the local supply chain remains a key strength for the group.

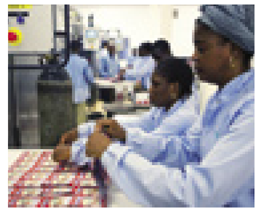
Supply chain

As part of the Group margin improvement programme, a comprehensive review of the supply chain has been undertaken which is now resulting in certain restructuring. In particular, it has been decided to build a new bar soap production factory in Thailand which, together with the existing Indonesian plant, will provide the majority of the UK and Australian markets' soap needs.

The new factory should be in full production by 2007 when the UK Nottingham bar soap plant will be closed. Output from the Nottingham factory represents about 17% of our total UK consumer business. Plans relating to the closure of the Australian plant were announced last year.

The current weakness in the dollar and the impact of high oil prices on key packaging materials has restricted improvement in margins over the last few months, but our target remains to increase operating margins in the years ahead.

Manufacture
World class manufacturing has been rolled out to all factories around the world.



Milk factory
Construction of the milk factory at Ikorodu is on schedule and will operate using the latest technology.

Distribution networks
Established distribution networks enable us to respond efficiently to consumer demand.

Communications. Investment in communication systems provides a platform for technology enhanced growth.

Communications

There has been considerable investment in systems development in recent years, with all units basing their financial, distribution and supply chain processes on one system, MfgPro.

Communication technology has recently become available that covers all geographic areas of our business, including Africa, enabling more reliable voice and data transfer.

In January 2005 a contract was agreed with Equant (part of France Telecom) to establish a Virtual Private Network for all units which will enable timely, reliable, consistent and visible information to be instantly available, assisting significantly in achieving rapid progress on our major growth initiatives.

UNITED KINGDOM POLAND GREECE

Europe. Innovative new product development forms the basis of PZ Cussons' future success in its European units.

Carex
The Carex range of antibacterial moisturising products remove dirt from the skin, while leaving it feeling soft and conditioned.

Imperial Leather
Imperial Leather personal wash products have a rich and creamy lather that will transform the way you feel.

Europe

In the UK, the major brands performed well although the market was generally difficult in the second half, particularly for Charles Worthington and Imperial Leather. Increases in raw material prices (including packaging materials), particularly those which are oil based, have impacted on margins. The launch of the new Carex bathroom range has gone well. Since the year end, sales are improving and meeting expectations.

In Eastern Europe the results for Poland were satisfactory; however, as indicated in the interim statement, the results in Russia have been disappointing and losses of approximately £5m were incurred.

During the financial year the Polish zloty strengthened significantly against the rouble and this reduced margins, resulting in lower sales with reduced flexibility on pricing and support.

A restructuring programme has been undertaken to concentrate our ambitions in Eastern Europe, mainly on Poland, and to establish quickly a profitable level of activity. In addition to our withdrawal from Russia our liquids and creams factory in Warsaw has also been closed.

Sales and profits in the Greek unit were marginally up on the previous year.

Supermarkets
European distribution is mainly via key supermarket chains.

Original Source
Original Source is a range of products containing natural essential oils for a zingy and zesty experience that will awaken the senses.

Charles Worthington
The philosophy of the Charles Worthington haircare range is to provide an indulgent treat everyday.

NIGERIA KENYA GHANA CAMEROUN

Africa. With over 100 years' experience of trading in Africa, PZ Cussons is well placed to capitalise on the economic stability of Nigeria.

Nigeria

In naira, sales and operating profits have increased by 22%. During the year our Nigerian activities have been split into various business units to bring more focus to each sector as plans for growth are instigated.

These cover:
- Soap and detergents
- Health and beauty
- HPZ (white goods)
- Nutricima (milk)
- Distribution

A review of requirements for property, plant, people and working capital is now progressing. During the year certain properties have been sold giving rise to a profit of £3m.

This property disposal and reinvestment programme will continue over the next few years.

Throughout the year, the naira remained steady against the dollar. Margins suffered in the first half from the increased cost of raw materials caused by the weakness of the dollar against sterling and high oil prices, however price increases and cost saving initiatives caused margins to improve in the second half. The high oil prices have resulted in major increases in government revenues which have generally been used to build reserves. The debt forgiveness programme recently agreed should result in increases in expenditure, particularly on infrastructure projects.

Turnover and profitability in Ghana and Kenya were largely in line with expectations.

Joy
Joy beauty soap, with its rich perfume and creamy lather, helps leave your skin feeling soft and smooth.

Venus
Venus hair relaxers are specially formulated for African hair to straighten without irritation.

Robb
Robb mentholated rub is a decongestant, giving rapid relief to muscular aches and pains.

Markets
All of PZ Cussons' products are sold via 'traditional markets'.

Elephant
Elephant detergent has all the strength to tackle stubborn dirt and stains whilst being gentle on clothes.

INDONESIA THAILAND AUSTRALIA UNITED ARAB EMIRATES

Asia. Strong brand ranges and an excellent distribution network are key characteristics of the Asian region.

Baby
Cussons Baby is a comprehensive range of products which gently care for and protect your baby whilst offering excellent value for money.

Kids
Cussons Kids is an exciting range of fruit fragranced toiletries which protect and care for your children.

Asia

Sales growth was restricted in the region although profitability continued to increase, particularly in Australia, where the margin improvement programme is impacting significantly. The translation impact from the strength of sterling resulted in a £9m reduction in reported turnover and £1m in profits.

Trading in Indonesia, Thailand and Malaysia was competitive, limiting price increases, despite oil based cost increases to raw materials and packaging.

Australia continues to contribute significantly to the Group and in May 2005 expanded its brand portfolio with the acquisition of the Trix detergent brand.

With the continuing losses in the Chinese unit a decision was made to dispose of the business and this was completed in February 2005, giving rise to an exceptional loss of £3.4m.

Wet markets
The traditional form of shopping in Indonesia is via 'wet markets'.

Sweet Seventeen
Sweet seventeen is a range of modern products with rejuvenating fragrances specifically for teenage girls.

Accounts.

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements of the Group for the year ended 31st May 2005.

Principal activities

The principal activities of the Group are the manufacture and distribution of soaps, detergents, toiletries, pharmaceuticals, white goods and milk products.

Further details of these and other Group activities are given in the operating review.

Results and dividends	£000	£000
Profit for the financial year		29,023
Dividends:		
Preference: as shown in note 9		(770)
		28,253
Ordinary:		
Adjustment for May 2004 proposed final at 23.95p on shares transferred from ESOT	(22)	
Interim at 8.65p (2004 – 8.05p)	(3,484)	
Proposed final at 26.60p (2004 – 23.95p)	(11,276)	
		(14,782)
Profit retained		13,471

Further analysis of the Group's results for the year can be found in the operating review.

Financing and treasury

The Group maintains a centralised treasury function which operates on a non-speculative basis in accordance with policies and procedures approved by the board of directors. The aim of this function is to mitigate the effects of any adverse movements in exchange rates and interest rates on the Group's financial results.

Financing and interest rate risk

The Group maintains a substantial net funds position. Net funds at 31st May 2005 were £74.0m (2004 – £85.2m), an analysis of which is provided in notes 26(iii) and 27. These principally comprise short and medium term deposits and borrowing as well as a portfolio of listed investments. This mix of funds allows the Group flexibility in optimising its central funding position and the ability to act promptly to counteract any adverse movements in interest rates in its overseas territories.

Foreign currency risk

The international range of the Group's activities gives rise to both transactional exchange rate risk and translation exposure when the results and net assets of foreign subsidiaries are translated into sterling.

The Group requires its operating units to hedge their material transaction exposures on sales and purchases conducted in currencies other than their functional currencies. The Group's main foreign currency exposure relates to US dollar deposits, details of which are given in note 27.

The Group does not actively hedge its translation exposures as these are of an accounting rather than a cash nature, however the international spread of the Group's operations itself reduces dependence on individual currencies.

International Financial Reporting Standards

The European Union requires all European listed companies to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) from 1st January 2005. The PZ Cussons Group will therefore prepare interim results for the six month period to 30th November 2005 under IFRS, rather than UK GAAP.

The Group is now well advanced with its project to implement IFRS and our initial conclusion is that the key impacts are as follows:

- Retirement benefits – Under IAS 19, “Employment benefits”, the net financial position of the Group's defined benefit pension schemes, based on the market values for the schemes' assets and liabilities, will be included on the balance sheet. This treatment and the related disclosures have many similarities with the requirements of FRS 17, which are reflected in note 22 to the financial statements. The impact of the adoption of IAS 19 is therefore to increase net assets by approximately £6m at 1st June 2004. The option will be taken to take actuarial gains and losses through the statement of recognised income and expense rather than through the income statement.

REPORT OF THE DIRECTORS CONTINUED

- Deferred taxation – Under UK GAAP, deferred taxation is provided on all timing differences, except those specifically excluded by FRS 19, “Deferred tax”, (including those that relate to revaluations where no sale is in process, or where it is probable that rollover relief or losses will be applied to the gain). Under IFRS, deferred taxation is provided on substantially all differences between the book and tax bases of assets and liabilities. The main impact of the adoption of IAS 12, “Income taxes”, is therefore recognition of a £8m deferred tax liability on the revaluation of land and buildings to market value at 1st June 2004.
- Financial instruments – Under IAS 39, “Financial instruments”, listed investments will be required to be recognised in the balance sheet at market value. Advantage will be taken of the exemption from applying IAS 39 for the year ended 31st May 2005. On adoption on 1st June 2005 the anticipated increase in net assets for the fair value uplift on listed investments is £3m.
- Share option costs – Under IFRS 2, “Share-based payment”, the Group will be required to recognise a charge in the profit and loss account for share options awarded based on the fair value of the awards as calculated at the grant date using an option-pricing model. This will introduce an additional charge for the Group, as executive share option scheme options, which have an intrinsic value of nil and which are specifically exempt from the scope of current UK GAAP accounting, will have a fair value attached to them, and hence an associated profit and loss account charge under IFRS. The anticipated charge to the profit and loss account based on the current rate of grant is £1m per annum.
- Property, plant and equipment – Under IFRS 1, “First time adoption”, the option will be taken to treat the carrying values of fixed assets at 31st May 2004 as deemed cost in the opening balance sheet at 1st June 2004. Furthermore, under IAS 16, “Property, plant and equipment”, the Group will not adopt a policy of revaluation for any class of asset.
- Post balance sheet events – Under IAS 10, “Events after the balance sheet date”, dividends are reflected when approved by shareholders rather than when they are declared. Accordingly the final dividend charge in the IFRS restated income statement for the 12 month period to 31st May 2005 will be the dividend declared in the 31st May 2004 report and accounts under UK GAAP with similar impacts in future years.

Political and charitable contributions

Charitable contributions in the United Kingdom during the year amounted to £53,000 (2004 – £50,000). Further contributions were made to the Tsunami Appeal details of which are given in the Corporate Social Responsibility statement. No political contributions were made (2004 – Nil).

Research and development

The Group maintains in-house facilities for research and development in the United Kingdom, Poland, Indonesia, West Africa and Australia; in addition, research and development is sub-contracted to approved external organisations. All such expenditure is charged against profits in the year in which it is incurred.

Payment of suppliers

It is the responsibility of the management of each operating unit within the Group to agree appropriate terms of business with suppliers upon entering into binding contracts, and to adhere to these payment terms provided the relevant goods or services have been supplied in accordance with the contracts. As the parent company does not trade it has no trade creditors and accordingly no year end creditor days disclosure is made.

Employment of disabled persons

During the year the Group has maintained its policy of providing equal opportunities for the appropriate employment, training and development of disabled persons.

Employee information

The Group recognises the benefits of keeping employees informed of the progress of the business and of involving them in their company's performance. The methods of achieving such involvement are different in each company and country and have been developed over the years by local management working with local employees in ways which suit their particular needs and environment, with the active encouragement of the parent organisation.

Auditors

The auditors Deloitte & Touche LLP have signified their willingness to continue in office and a resolution for their re-appointment will be proposed at the forthcoming annual general meeting.

Directors

Mr D M Whitewood retired from the board on 31st May 2005. Mr J Pantelireis was appointed an executive director on 1st June 2005.

In accordance with the company's articles of association, Mr J Pantelireis now retires as a director and, being eligible, offers himself for election at the annual general meeting.

The directors retiring by rotation are Mr C N Green, Mr A G Calder, Mr C Nicoloulias and Mr J D M Smith who, being eligible, offer themselves for re-election.

Executive directors at 2nd August 2005:

Mr A J Green
Chairman (age 54)
He joined the company in 1975 and was appointed to the board in 1990 becoming Chairman in 1993.

Mr C N Green
Chief Executive (age 53)
Was appointed Chief Executive in June 1996. He joined the company in 1975 and was appointed to the board in 1990.

Mr G A Kanellis
Deputy Chief Executive (age 40)
He joined the company in 1993 and was appointed to the board in 2003 having held a number of senior positions in Asia.

Mr A G Calder
Finance Director (age 58)
He joined the company in 1996 and was appointed to the board in 1998.

Mr C Nicoloulias
Regional Director - Africa (age 58)
He joined the company in 1970 and was appointed to the board in 2000 having held a number of senior positions with the Group in Africa and Asia.

Mr J Pantelireis
Group Sourcing Director (age 51)
He joined the company in 1982 and was appointed to the board in 2005 having held a number of senior positions with the Group.

Mr P J Smyth
Regional Director - Europe (age 51)
He joined the company in 1978 and was appointed to the board in 1998 having held a number of senior positions with the Group in Europe and Australia.

Mr J Spyridoulias
Technical Director (age 57)
He joined the company in 1976 and was appointed to the board in 1996 having held a number of senior positions with the Group both in the UK and overseas.

Non-executive directors at 2nd August 2005:

Mr J D M Smith (age 65)
Was for many years an executive director of BTR Plc. Appointed to the board in 2000, Mr Smith is the senior non-executive director.

Mr D C Godwin (age 66)
A qualified mechanical engineer and a former senior corporate partner of Cazenove & Co, the London stockbrokers. Appointed to the board in 1998.

Mr D W Lewis (age 60)
A former partner of Addleshaw Goddard. Appointed to the board in 2004, Mr Lewis is a non-executive member of the Addleshaw Goddard Governance Board.

Mr R H Sellers OBE (age 59)
A chartered accountant and formerly the chief executive and deputy chairman of British Vita Plc. Appointed to the board in 2001.

Directors' interests

The directors' interests in the share capital of the company at 31st May 2005 together with their interests at 1st June 2004 were as follows:

	Ordinary shares		'A' ordinary shares		7½% cumulative preference shares		10% cumulative preference shares	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
Beneficial								
A J Green	**3,565,570**	3,565,570	**2,318,244**	2,318,244	**3,871**	3,871	**100**	100
C N Green	**3,566,352**	3,566,352	**2,305,243**	2,305,243	**3,870**	3,870	**9,300**	9,300
A G Calder	**13,540**	10,000	**7,040**	3,500	**–**	–	**–**	–
D C Godwin	**5,000**	5,000	**10,500**	10,500	**–**	–	**–**	–
G A Kanellis	**2,475**	1,000	**1,475**	–	**–**	–	**–**	–
D W Lewis	**1,000**	1,000	**–**	–	**–**	–	**–**	–
C Nicoloulias	**7,000**	1,000	**6,000**	–	**–**	–	**–**	–
R H Sellers	**2,000**	2,000	**3,000**	3,000	**–**	–	**–**	–
J D M Smith	**4,000**	4,000	**4,000**	4,000	**–**	–	**–**	–
P J Smyth	**5,540**	2,000	**4,540**	1,000	**–**	–	**–**	–
J Spyridoulias	**3,000**	3,000	**2,000**	2,000	**–**	–	**100**	100
D M Whitewood	**4,450**	1,000	**3,450**	–	**–**	–	**–**	–
Sub-total	**7,179,927**	7,161,922	**4,665,492**	4,647,487	**7,741**	7,741	**9,500**	9,500
Less duplication (see note 1)	**3,461,172**	3,461,172	**2,251,078**	2,251,078	**3,000**	3,000	**–**	–
Total	**3,718,755**	3,700,750	**2,414,414**	2,396,409	**4,741**	4,741	**9,500**	9,500
Non-beneficial								
A J Green	**333,215**	333,215	**326,072**	326,072	**334**	334	**–**	–
C N Green	**–**	–	**15,000**	15,000	**–**	–	**–**	–
A G Calder	**5,756,632**	5,750,632	**596,922**	590,922	**–**	–	**–**	–
Sub-total	**6,089,847**	6,083,847	**937,994**	931,994	**334**	334	**–**	–
Less duplication (see note 1)	**–**	–	**15,000**	15,000	**–**	–	**–**	–
Total	**6,089,847**	6,083,847	**922,994**	916,994	**334**	334	**–**	–

The directors' interests at 1st August 2005 following the enfranchisement of the 'A' ordinary shares (including the compensatory bonus issue) and the cancellation and repayment of both classes of preference shares are shown below and include the shareholding of Mr J Pantelireis who was appointed a director of the company after 31st May 2005.

	Ordinary shares
Beneficial	
A J Green	**6,240,369**
C N Green	**6,228,228**
A G Calder	**21,934**
D C Godwin	**16,000**
G A Kanellis	**4,197**
D W Lewis	**1,100**
C Nicoloulias	**13,700**
J Pantelireis	**7,700**
R H Sellers	**5,200**
J D M Smith	**8,400**
P J Smyth	**10,634**
J Spyridoulias	**5,300**
Sub-total	**12,562,762**
Less duplication (see note 1)	**6,058,366**
Total	**6,504,396**

	Ordinary shares
Non-beneficial	
A J Green	**692,608**
C N Green	**15,000**
A G Calder	**6,929,217**
Sub-total	**7,636,825**
Less duplication (see note 1)	**15,000**
Total	**7,621,825**

REPORT OF THE DIRECTORS CONTINUED

Notes:

1 Certain of the directors' beneficial and non-beneficial interests appear more than once where such directors are either, within each category, co-beneficiaries or co-trustees. The totals show the total interests of the directors excluding this duplication.

2 The figures in the tables do not include 242,318 ordinary shares and 214,353 'A' ordinary shares purchased by the ESOT at 31st May 2005, amended to 480,902 ordinary shares following the enfranchisement of the 'A' ordinary shares and the compensatory bonus issue. The ESOT is a discretionary trust under which the class of beneficiaries who may benefit comprises certain employees and former employees of the company and its subsidiaries including members of such employees' and former employees' immediate families. Some or all of the shares held in the ESOT may be the subject of awards to executive directors of the company (excluding the chairman) under the deferred annual share bonus scheme, details of which are given in the report on directors' remuneration. Accordingly those executive directors are included in the class of beneficiaries and are deemed to have a beneficial interest in all the shares acquired by the ESOT.

3 The figures in the tables do not include 238,398 ordinary shares and 238,398 'A' ordinary shares granted as options under the executive share option scheme at 31st May 2005, amended to 500,636 ordinary shares following the enfranchisement of the 'A' ordinary shares and the compensatory bonus issue. Further details of this scheme are given in the report on directors' remuneration.

The register recording the directors' interests will be open for inspection at the annual general meeting. No director had any beneficial interest during the year in shares or debentures of any subsidiary company. There were no contracts of significance subsisting during or at the end of the financial year with the company or any of its subsidiaries in which a director of the company was materially interested.

During the year, the company maintained liability insurance for its directors and officers.

Other substantial interests

The register maintained by the company under section 211 of the Companies Act 1985 disclosed the following interests in the shares of the company held at 1st August 2005:

	Number of shares	**%**
J B Zochonis	6,061,958	14.14
Zochonis Charitable Trust	4,936,504	11.51
Hunter Hall Investment Management	2,895,530	6.75
Mrs C M Green Settlement	2,032,828	4.74
J B Zochonis Settlement	1,992,713	4.65
Sun Life Unit Assurance Ltd	1,365,686	3.19

REPORT OF THE DIRECTORS CONTINUED

Special business at the annual general meeting

The resolutions that will be proposed at the annual general meeting on 26th September 2005 are set out in the Notice of Annual General Meeting on page 73 of this document. Resolutions 1 to 9 are resolutions relating to ordinary business, whilst resolutions 10 to 12 will be special business. Details of the resolutions relating to special business are set out below:

Ordinary resolution 10 seeks authority for the directors to allot relevant securities (as defined by section 80(2) of the Companies Act) up to an aggregate nominal amount of £1,412,750 being the authorised share capital less issued share capital, and representing approximately 25% of the company's authorised share capital at the date of the Notice of the Annual General Meeting. If granted, the authority will expire at the earlier of the conclusion of the annual general meeting to be held in 2006 and the date 15 months from the date of the passing of the resolution, and will replace a similar authority granted on 28th June 2005 and which expires at the conclusion of the forthcoming annual general meeting.

Special resolution 11 seeks authority for the directors, until the earlier of the conclusion of the annual general meeting to be held in 2006 and the date 15 months from the date of the passing of the resolution, to allot equity securities for cash, or sell its own shares out of treasury for cash, without first offering them to existing shareholders. The authority would be limited to a rights issue or similar offering of equity securities to shareholders and the allotment of equity securities or sale of equity securities held in treasury by the company up to an aggregate nominal value of £214,362 being the equivalent of 5% of the share capital in issue on the date of the Notice of the Annual General Meeting. The power will, if granted, replace the similar power conferred on the directors on 28th June 2005.

Special resolution 12 seeks to renew the authority from shareholders to enable the company to make market purchases of its own shares and will replace a similar authority granted on 28th June 2005. This authority will apply for up to 4,287,245 shares, representing approximately 10% of the company's issued share capital. The maximum price (exclusive of expenses) which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for such share (derived from the London Stock Exchange daily official list) for the five business days immediately preceding the date of purchase. If granted, the authority will expire at the conclusion of the annual general meeting in 2006 or within 15 months of the passing of this resolution, whichever is earlier and would only be exercised if an improvement in earnings per share was expected to result.

Purchase of own shares

No shares were purchased during the period 1st June 2004 to 1st August 2005 (year ended 31st May 2004 – Nil).

Restructuring of share capital

Following approval at an extraordinary general meeting of the company held on 28th June 2005, the share capital of the company has been restructured by the conversion of the 'A' non-voting shares into ordinary shares and the repayment and cancellation of the preference shares. Following approval of the High Court, this restructuring is now complete.

By order of the board of directors

B H LEIGH – Secretary
2nd August 2005

REPORT ON DIRECTORS' REMUNERATION

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and satisfies the requirements of the Listing Rules of the Financial Services Authority. A resolution to approve the report will be proposed at the annual general meeting.

The table on directors' emoluments and information on the deferred annual share bonus scheme, the executive share option scheme and directors' pensions have been audited.

Remuneration committee
The members of the committee during the year were Messrs D C Godwin, D W Lewis, R H Sellers and J D M Smith (chairman).

The members are all non-executive directors of the company. They are independent, have no conflicts of interest and no day-to-day involvement in running the business. The remuneration of the non-executive directors is determined by the executive directors. The committee was advised during the year by New Bridge Street Consultants, London, in relation to salary levels, the deferred annual share bonus scheme and the executive share option scheme.

Policy on executive directors' remuneration
The employment conditions, pay and benefits are intended to reward and motivate directors in a manner which reflects the global and competitive nature of the Group's business and to be sufficient to attract and retain persons of high calibre.

Elements of the remuneration package are as follows:

- Basic salary and benefits
- Participation in the deferred annual share bonus scheme
- Participation in the executive share option scheme
- Pension benefits from the executive directors' scheme

Basic salary and benefits
Salaries are reviewed annually by the remuneration committee. The review takes account of individual performance, company performance, external surveys and remuneration levels in a range of companies of comparable size, geographical spread and market sector.

Taxable benefits, which are subject to periodic review, include health insurance and car benefits.

Deferred annual share bonus scheme
As part of the Group focus on improved operating performance, a deferred annual share bonus scheme was introduced with effect from 1st June 2000 for main board executive directors (excluding the chairman) and certain key subsidiary directors. The award of a bonus to a maximum of 50% of salary is dependent upon the achievement of operating profit targets and will normally be received by the directors following three years of continuing employment from the date of the award. The award will be made in shares which are purchased in the market and retained in an employee trust.

No shares were awarded during the financial year to 31st May 2005.

Further details of the employee trust are given in note 24.

Executive share option scheme
An executive share option scheme was introduced with effect from 1st June 2003. This emphasises the board's commitment to ensuring the interests of senior executives are clearly aligned with shareholders' interests. Key points of the scheme are as follows:

- Senior executives (excluding the chairman) will be granted options to buy shares at the market value of the shares when the options are granted. This means that executives will only benefit under the scheme to the extent that shareholders benefit through increases in the share price.
- The value of shares under options granted to an executive in any financial year will be limited to a maximum of 1.5 times basic salary. Options granted to executives have not exceeded one times basic salary.
- The exercise of options granted will be subject to performance conditions based on the company's normalised earnings per share growth relative to inflation over three or four financial years. The following targets will apply:

Proportion of option grant exercisable	Performance conditions (average annual growth in excess of inflation in earnings per share)
33%	RPI + 3% pa
33% - 66% (pro rata)	RPI + 3% to 5% pa
66% - 100% (pro rata)	RPI + 5% to 7% pa

- The remuneration committee will review the performance conditions each time options are granted, in order to ensure that they remain challenging in the context of the company's long-term budgets, and may impose different conditions provided they are suitably challenging.

REPORT ON DIRECTORS' REMUNERATION CONTINUED

Details of options granted to directors are as follows:

The second grant of options took place on 21st September 2004. The exercise price for these options, equal to the market value at the date of the grant, is £11.95 for options to buy ordinary shares and £11.24 for 'A' ordinary shares, and is applicable to all directors. Options are normally exercisable between three and ten years from the date of grant. There have been no other grants of options during the year and no variations to the terms and conditions or performance criteria during the year.

Ordinary shares

	Balance at 1st June 2004	Options granted during year	Options exercised during year	Balance at 31st May 2005	Option price range (£)
C N Green	19,108	13,712	–	32,820	8.35 - 11.95
A G Calder	15,286	11,211	–	26,497	8.35 - 11.95
G A Kanellis	10,191	8,193	–	18,384	8.35 - 11.95
C Nicoloulias	14,012	10,263	–	24,275	8.35 - 11.95
P J Smyth	11,942	8,538	–	20,480	8.35 - 11.95
J Spyridoulias	11,146	7,945	–	19,091	8.35 - 11.95
D M Whitewood	11,910	8,495	–	20,405	8.35 - 11.95

'A' ordinary shares

	Balance at 1st June 2004	Options granted during year	Options exercised during year	Balance at 31st May 2005	Option price range (£)
C N Green	19,108	13,712	–	32,820	7.35 - 11.24
A G Calder	15,286	11,211	–	26,497	7.35 - 11.24
G A Kanellis	10,191	8,193	–	18,384	7.35 - 11.24
C Nicoloulias	14,012	10,263	–	24,275	7.35 - 11.24
P J Smyth	11,942	8,538	–	20,480	7.35 - 11.24
J Spyridoulias	11,146	7,945	–	19,091	7.35 - 11.24
D M Whitewood	11,910	8,495	–	20,405	7.35 - 11.24

The market price of the ordinary shares at 31st May 2005 was £13.14, and the range during the year was £10.85 to £14.40.

The market price of the 'A' ordinary shares at 31st May 2005 was £11.15, and the range during the year was £9.16 to £12.59.

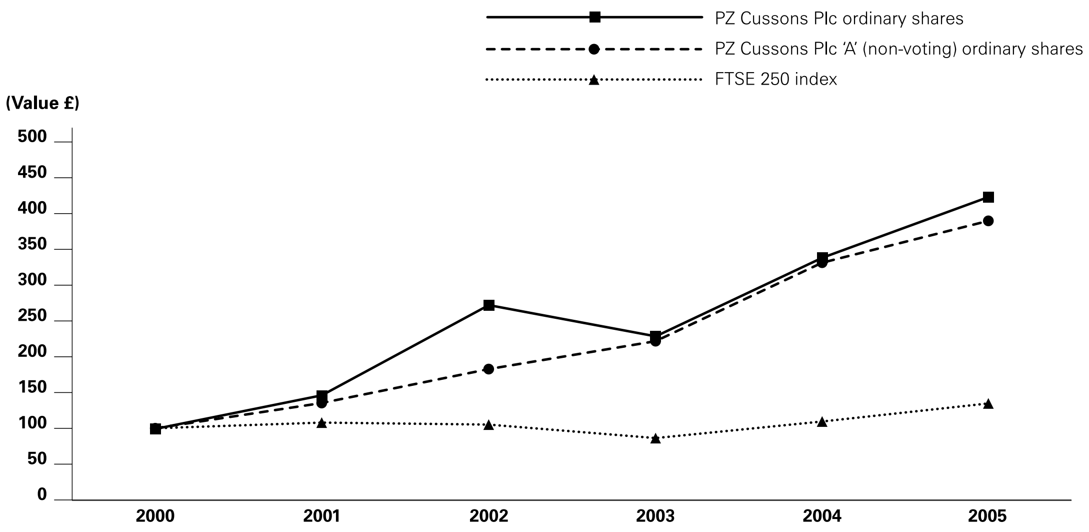
Following the enfranchisement of the 'A' ordinary shares and the compensatory bonus issue of ordinary shares the number of shares subject to share options have been adjusted accordingly.

REPORT ON DIRECTORS' REMUNERATION CONTINUED

Performance graph

The graph illustrates the performance of PZ Cussons Plc measured by Total Shareholder Return (TSR) over the five year period to 31st May 2005 against the TSR of a holding of shares in the FTSE 250 index over the same period, based on an initial investment of £100. The FTSE 250 index was chosen as PZ Cussons Plc is a constituent of that index.

PZ Cussons Plc TSR vs the FTSE 250 Index TSR



Source: Thomson Datastream

The following table shows remuneration of individual directors for the year ended 31st May 2005.

	Salary/ fees £	**Bonus £**	**Taxable benefits £**	**2005 Total £**	2004 Total £
Executive directors					
A J Green (Chairman)	263,461	–	34,731	**298,192**	272,549
C N Green	375,798	–	31,928	**407,726**	401,929
A G Calder	282,178	–	22,898	**305,076**	324,957
G A Kanellis	203,272	–	21,182	**224,454**	223,638
C Nicoloulias	260,154	–	21,441	**281,595**	300,247
P J Smyth	213,691	–	16,640	**230,331**	252,369
J Spyridoulias	201,455	–	21,060	**222,515**	242,981
D M Whitewood	211,742	–	21,535	**233,277**	253,702
Non-executive directors					
D C Godwin	20,000	–	–	**20,000**	20,000
D W Lewis	20,000	–	–	**20,000**	–
R H Sellers	20,000	–	–	**20,000**	20,000
J D M Smith	20,000	–	–	**20,000**	20,000
	2,091,751	–	191,415	**2,283,166**	2,332,372
Payments to former directors for continuing services	11,667	–	14,000	**25,667**	25,517

REPORT ON DIRECTORS' REMUNERATION CONTINUED

Pension benefits

The executive directors' pension scheme provides benefits of up to two thirds salary, dependants' pensions and lump sum payments in the event of death in service. Benefits in kind are not pensionable. All the executive directors at 31st May 2005 are members of the scheme. Benefits in respect of each executive director are given in the table below:

	Gross increase in accrued pension £	**Increase in accrued pension net of inflation (a) £**	**Total accrued pension at 31.05.05 £**	**Value of net increase in accrual over period (b) £**	**Value of accrued pension at 31.05.04 £**	**Value of accrued pension at 31.05.05 £**	**Total change in value during period (c) £**
A J Green	13,360	9,811	145,312	111,000	1,464,000	1,847,000	369,000
C N Green	32,950	28,417	189,263	310,000	1,578,000	2,198,000	600,000
A G Calder	14,333	10,867	133,839	154,000	1,527,000	1,976,000	437,000
G A Kanellis	8,923	7,644	53,019	36,000	222,000	322,000	89,000
C Nicoloulias	12,000	7,602	163,667	140,000	2,936,000	3,308,000	359,000
P J Smyth	8,317	5,879	92,390	53,000	720,000	933,000	203,000
J Spyridoulias	10,223	6,903	124,690	128,000	1,993,000	2,446,000	445,000
D M Whitewood	4,010	3,607	17,893	113,000	340,000	575,000	225,000

Notes:

1 Pension accruals shown are the amounts which would be paid annually on retirement based on service to the end of the year and salary at 31st May 2005.

2 Transfer values have been calculated in accordance with version 9.1 of guidance note GN11 issued by the actuarial profession.

3 The value of net increase (b) represents the incremental value to the director of his service during the year, calculated on the assumption that service terminated at the year end. It is based on the accrued pension increase (a) after deducting the director's contribution.

4 The change in the transfer value (c) includes the effect of fluctuations in the transfer value due to factors beyond the control of the company and directors, such as gilt yield movements. It is calculated after deducting the director's contribution.

5 Voluntary contributions paid by directors and resulting benefits are not shown.

6 The total accrued pension as at 31st May 2005 and the value of accrued pension at 31st May 2004 and 31st May 2005 shown for Messrs Calder and Smyth include benefits resulting from transfers into the plan.

7 In addition to the pensions shown in the first three columns above, Mr Whitewood accrued an unfunded defined contribution benefit of £47,500 during the year. The total accrued unfunded defined contribution benefit stands at £203,500 at 31st May 2005. This £47,500 accrued during the year is included in (b) and (c) above and the value of the defined contribution benefit at the respective date is included in the penultimate two columns.

8 The company provides unfunded, unapproved pension benefits for executive directors whose benefits are subject to the Inland Revenue earnings cap, introduced by the Finance Act 1989.

Service contracts

Executive directors have one year rolling service contracts. No executive director including those proposed for re-election has a service contract with a notice period in excess of one year or containing any provision for pre-determined compensation on termination exceeding one year's salary and benefits in kind. Non-executive directors do not have service contracts but are appointed for initial periods of three years, normally renewable on a similar basis.

By order of the board of directors

A J GREEN
2nd August 2005

CORPORATE GOVERNANCE

The board is committed to meeting the standards of good corporate governance set out in the Combined Code on corporate governance published by the Financial Reporting Council in July 2003. This report, together with the report on directors' remuneration describes how the board applied the Code during the year under review.

Directors

The board is responsible for the Group's strategic development, monitoring its business objectives and maintaining a system of effective corporate governance.

The board of directors has twelve members comprising the chairman, the chief executive, six other executive directors and four non-executive directors. The names of the directors together with their biographical details are set out in the report of the directors. The differing roles of the chairman and chief executive are acknowledged. The chairman is primarily responsible for the running of the board and ensuring that it is supplied in a timely manner with sufficient information to enable it to discharge its duties. The chief executive is responsible for coordinating the running of the business and implementing Group strategy. The executive directors' service contracts and the letters setting out the terms of appointment of the non-executive directors are available for inspection at the company's registered office during normal business hours and at the annual general meeting.

The non-executive directors are all considered to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. Mr D W Lewis recently retired as a partner of Addleshaw Goddard, who act as legal advisors to the company. Mr Lewis does not and has not participated in any way in the provision of services by Addleshaw Goddard to PZ Cussons. In addition, in order that his independence is not compromised, if at any time the board or a committee of the board is considering any matter concerning Addleshaw Goddard, it has been agreed that Mr Lewis will withdraw from that meeting until such matters have been dealt with. The senior independent non-executive director is Mr J D M Smith. In his capacity as senior independent director Mr Smith is available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or finance director has failed to resolve or for which such contact is inappropriate.

The board has a documented schedule of matters reserved for its decision, including approval of the Group's strategy, annual budgets, material agreements and major capital commitments, approval of annual and interim results, material acquisitions and disposals and entering into material joint ventures and partnerships. The board met formally four times during the year and will meet further as necessary to consider specific matters. All the directors were in attendance at each meeting.

Directors can take independent professional advice where necessary at the company's expense and have access to the services of the company secretary who is responsible for ensuring that board procedures and all applicable rules and regulations are followed. During the year, the company maintained liability insurance for its directors and officers.

There is a formal induction process for directors including visits to principal sites and meetings with operating management. Directors may take additional training where necessary as part of their continuing development at the expense of the company.

A formal review of the board and board committee performance is carried out annually. The chairman's performance is reviewed by the non-executive directors led by the senior independent director and takes into account the views of the executive directors. The performance of the non-executive directors is evaluated by the chairman, in consultation with the executive directors. The remuneration committee reviews executive directors' performance with guidance from the chairman and the chief executive except in the case of the chief executive's performance where it is reviewed by the chairman and the remuneration committee. The directors submit themselves for re-election at the annual general meeting following their appointment and thereafter by rotation, at least once every three years. The review process in 2005 concluded that all directors continue to contribute effectively and with proper commitment, devoting adequate time to carry out their duties.

The board has established a number of standing committees to which various matters are delegated according to defined terms of reference. The terms of reference of the committees are available, on request, from the registered office of the company and will also be available through the company's website.

Nomination committee

The nomination committee is responsible for regularly reviewing the structure, size and composition of the board and identifying and recommending appropriate candidates for membership of the board when vacancies arise. The committee members are Mr A J Green (committee chairman), Mr C N Green and the four independent non-executive directors, Mr D C Godwin, Mr D W Lewis, Mr R H Sellers and Mr J D M Smith. In considering an appointment the nomination committee evaluates the balance of skills, knowledge and experience of the board and prepares a description of the role and capabilities required for a particular appointment. External search agencies or open advertising will be used where this is appropriate. Short-listed candidates will then be invited to interview with members of the committee and, if recommended by the committee, will be invited to meet other board members before any decision is taken relating to the appointment. The committee met three times during the year and all the committee members were in attendance at each meeting.

CORPORATE GOVERNANCE CONTINUED

Remuneration committee

The remuneration committee is responsible for reviewing and recommending the framework and policy for remuneration of the chairman, executive directors and senior executives, which the board as a whole is responsible for approving. The committee members are the four independent non-executive directors, Mr D C Godwin, Mr D W Lewis, Mr R H Sellers and Mr J D M Smith (committee chairman). Once approved, the remuneration committee is responsible for evaluating the performance and determining specific remuneration packages for the chairman and each executive director. The chairman and executive directors are responsible for the agreement of non-executive directors' remuneration. The committee met three times during the year and all the committee members were in attendance at each meeting.

Audit committee

The audit committee is responsible for reviewing, on behalf of the board, the Group's accounting and financial policies and its disclosure practices and internal controls. It is also responsible for overseeing all matters associated with the appointments, terms, remuneration and performance of the external auditors and for reviewing the scope and results of the audit and its cost effectiveness. These responsibilities are discharged at the audit committee meetings and through regular reports from the internal audit function. The audit committee comprises the four independent non-executive directors, Mr D C Godwin, Mr D W Lewis, Mr R H Sellers (committee chairman) and Mr J D M Smith and meets regularly with the external auditors. The audit committee met twice during the year and all the committee members were in attendance at each meeting.

As mentioned, one of the duties of the audit committee is to make recommendations to the board in relation to the appointment of the external auditors. A number of factors are taken into account by the committee in assessing whether to recommend the auditors for reappointment. These include the quality of the reports provided to the audit committee and the board and the level of understanding demonstrated of the Group's business.

The Group has a policy governing the conduct of non-audit work by the auditors. The auditors are permitted to provide non-audit services that are not, or are not perceived to be, in conflict with auditor independence, providing they have the skill, competence and integrity to carry out the work and are considered to be the most appropriate to undertake such work in the best interests of the Group. Activities that may be perceived to be in conflict with the role of the external auditors must be submitted to the committee for approval prior to engagement, regardless of the amounts involved. All assignments are monitored by the committee.

Details of the amounts paid to the external auditors during the year for audit and other services are set out in the notes to the financial statements.

Risk management committee

The risk management committee is responsible for identifying significant risks and ensuring, where possible, that action is taken to mitigate these risks. This is achieved by an ongoing review which includes identifying all risks faced by the Group and assessing those risks, and ensuring that appropriate control measures are put in place. Plans are developed and implemented to eliminate, reduce or transfer these risks where practicable. The committee is also responsible for reviewing the risk management and control processes within the Group.

The committee comprises senior management from within the business and receives input from professional advisers. It met twice during the year and regularly reports to the board. In addition, the board undertakes annually a formal review of the risk management process and the performance of the risk management committee.

Remuneration

Details of directors' remuneration are set out in the report on directors' remuneration.

Accountability and audit

Directors' responsibilities in relation to financial statements

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the company as at the end of the financial year and of the profit or loss of the Group for that period. The directors are responsible for ensuring that suitable accounting policies are consistently applied supported by reasonable and prudent judgements and estimates and that applicable accounting standards are followed.

The directors have responsibility for ensuring that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the company and enable them to ensure that the financial statements comply with the Companies Act. They also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Going concern

After making an appropriate review the directors believe that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

CORPORATE GOVERNANCE CONTINUED

Internal control

The board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurances against material misstatement or loss.

The board is of the view that there is an ongoing process for identifying, evaluating and managing the Group's significant risks, that it has been in place for the year ended 31st May 2005 and up to the date of the annual report and accounts, that it is regularly reviewed by the board and that it accords with the Turnbull guidance for directors on the Combined Code.

The process includes:

- Frequent communication between the board and subsidiary management on all critical business issues.
- Regular visits to operating units by the board, head office management and internal audit.
- A detailed system of budgeting, reporting and forecasting.
- Regular review by the board of a risk management document produced by the risk management committee.

At its July 2005 meeting, the board carried out the annual assessment for the year to 31st May 2005 by considering documentation from the executive committee, risk management committee and internal audit, and taking account of events since the year end.

The company continues to take steps to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to the attention of management and the board.

Relations with shareholders

The company has periodic discussions with institutional shareholders on a range of issues affecting the Group's performance. All shareholders, including private investors, have an opportunity to present questions to the board at the annual general meeting and the directors are available to meet informally with shareholders after the meeting. The company responds throughout the year to correspondence received from shareholders on a wide range of issues and a subscription e-mail service is available for all interested parties through the company's website enabling access to company notifications and news releases.

Compliance statement

The directors consider that, throughout the accounting period, the company complied with the provisions of section 1 of the Combined Code as published in July 2003 and contained in the rules of the UK Listing Authority with the following exception:

Code Provision A.3.2

The board recognises that the Code specifies that at least half of the members on the board (excluding the chairman) should be independent non-executive directors. Throughout the year the board comprised the chairman, seven executive directors and four non-executive directors determined by the board to be independent and whose respective backgrounds clearly indicate that they are of sufficient calibre and number for their views to carry significant weight in the board's decisions.

CORPORATE SOCIAL RESPONSIBILITY

PZ Cussons is committed to running its business with integrity and with care insofar as the social and environmental impact of our activities is concerned. We aim to make a positive impact on society through the products we manufacture and sell, through our commercial operations and through the voluntary contributions we make to the community.

Corporate social responsibility (CSR) is a traditional value for the PZ Cussons organisation and is key to the way the company operates throughout the world. Through competitive employment policies we add value into the areas in which we operate by helping to meet the differing product needs of customers in developing countries and investing in more efficient production technologies and systems.

PZ Cussons takes regular account of the significance of social, ethical and environmental (SEE) matters to the business of the company. We have ensured the availability of adequate information to assess and manage SEE issues and these are covered in the training of directors and senior personnel. The company strives to maintain the highest standards of ethical conduct and corporate responsibility to ensure that reputable business practices are applied worldwide and ethical issues are dealt with in an effective and transparent manner. There is a strong emphasis throughout the organisation on commitment, trust, teamwork, personal accountability and commercial acumen.

The environment

PZ Cussons takes regular account of the significance of environmental matters to the business of the company and has identified and assessed any risks arising from its operations both to the environment and to the company's short and long-term value. PZ Cussons is committed to playing its part in protecting the environment, for the benefit of its employees and the public at large. The company has ensured and will continue to ensure that it complies with environmental laws and regulations at all times and will continue to identify the environmental impacts of all aspects of the business and find effective ways of reducing them.

We continue to implement systems to enable the measurement of certain environmental indicators, such as energy and water use, emissions to air or water and waste generation and we design all our new and upgraded plants and processes to be energy efficient and low maintenance. We also work closely with relevant local water authorities in order to identify potential water saving methods. In the UK the company has focused on waste collection and recycling to improve the management of our waste and to improve recycling.

Our manufacturing processes, facilities, distribution practices and products are all designed to minimise the effect on the environment. The company ensures that the design and development of new products take into account the potential environmental impact of production and appropriate measures are taken to contain such impacts.

The company will continue to provide the guidance necessary to ensure high standards are achieved at our manufacturing sites around the world whilst promoting continuous improvement based on careful risk assessment and comprehensive management systems.

Health and safety

PZ Cussons aims to maintain a safe workplace at all locations in which it operates. We continue to ensure that our business activities are undertaken in a responsible manner and in accordance with the relevant statutory legislation and that employees at all levels participate in the development, promotion and maintenance of a safe and healthy working environment for employees, visitors and the public. During recent years there have been major factory operating and efficiency improvements throughout the Group as we move towards world class manufacturing excellence. The company employs health and safety specialists and, where appropriate, provides on-site medical facilities for employees.

The company continues to monitor and increase standards of health and safety at work through risk assessment, safety audits, formal incident investigation and training. Our investment in plant and equipment enables us to modernise designs and operate safer and more efficient processes.

Employment and staff development

As an international group, and particularly bearing in mind our operations in developing countries, we focus resource on the employment and development of local staff with the intention of assisting both our operations in those countries and the local community. Employees are involved at all levels of decision-making throughout the Group with effective communication via regular consultation groups and briefings. Training is vital to ensuring continuous improvements in performance and over the past year employees of all grades have received training through a wide range of courses.

The employment policies of the Group embody the principles of equal opportunity, training and development and rewards appropriate to local markets which are tailored to meet the needs of its business and the areas in which they operate. This includes procedures to support the Group's policy that disabled persons shall be considered for appropriate employment and subsequent training and career development. The company continues to share valuable experience and best practice within the Group through employee secondment.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

PZ Cussons (UK) Limited is accredited with the Investor In People Award, recognising our commitment in developing our people in line with business needs. Our appraisal-based progression systems ensure that individual needs are continually assessed.

Community and charity

We support a range of charitable causes, both in the UK and overseas, mainly through a UK based shareholding trust and additional contributions are made through staff time and gifts in kind. In response to the Tsunami Appeal, we sponsored several polyclinics in Indonesia and an orphanage in Thailand. We also made a donation to an orphanage in Malaysia and contributed monies through the Disasters Emergency Committee in the UK.

PZ Cussons recognises its responsibility to the communities in which it operates and is committed to establishing and maintaining strong relationships with community groups, particularly in developing markets.

Product safety

PZ Cussons is committed to understanding issues involving safety associated with our products and supplying safe products to consumers. As part of this commitment, the company has been involved in product related health education programmes, particularly in developing countries.

Animal testing

None of our products are tested on animals. We support the development and acceptance of alternative methods that reduce or replace the use of animals in product safety evaluation. We continue to influence our suppliers to operate to similar high standards as ourselves.

Development of CSR reporting

Corporate social responsibility is acknowledged at the highest level at PZ Cussons and the board has reviewed and fully endorsed the CSR review. It is our intention that in the coming years we will continue to focus on establishing practices that will allow us to manage and monitor our social and environmental impacts in greater detail to enable us to further develop our corporate social responsibility reporting.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PZ CUSSONS PLC

We have audited the financial statements of PZ Cussons Plc for the year ended 31st May 2005 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the note of historical cost profits and losses, the reconciliation of movements in shareholders' funds, the statement of accounting policies and the related notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been 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 regarding directors' remuneration and transactions with the company and other members of the Group is not disclosed.

We also report to you if, in our opinion, the company has not complied with any of the requirements set out in the Financial Services Authority's Listing Rules 9.8.8R(2) with regards to the amount of each element in the remuneration package and information on share options, 9.8.8R(3), (4) and (5) with regards to details of long term incentive schemes for directors, 9.8.8R(11) with regards to money purchase schemes, 9.8.8R(12) with regards to defined benefit schemes, and we give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the July 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 and the part of the directors' remuneration report described as having been audited. 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 circumstances of the company and the Group, 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 and the part of the directors' remuneration report described as having been audited 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 and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the Group as at 31st May 2005 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
Manchester
2nd August 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year to 31st May 2005

	Notes	Before exceptional items £000	Exceptional items (note 3) £000	Total 2005 £000	Before exceptional items Restated £000	Exceptional items (note 3) £000	Total Restated 2004 £000
Turnover	1,2	**480,118**	**–**	**480,118**	457,917	–	457,917
Operating profit	2,3	**53,940**	**(6,642)**	**47,298**	54,094	(4,741)	49,353
Profit on disposal of intangible fixed assets	3	**–**	**–**	**–**	–	5,943	5,943
Profit on disposal of tangible fixed assets	3	**–**	**5,295**	**5,295**	–	–	–
Loss on sale or termination of operations	3	**–**	**(3,352)**	**(3,352)**	–	–	–
Net investment income / interest payable	6	**4,647**	**–**	**4,647**	4,693	–	4,693
Profit on ordinary activities before taxation	1	**58,587**	**(4,699)**	**53,888**	58,787	1,202	59,989
Taxation on profit on ordinary activities	7	**(17,968)**	**(616)**	**(18,584)**	(19,477)	1,259	(18,218)
Profit on ordinary activities after taxation		**40,619**	**(5,315)**	**35,304**	39,310	2,461	41,771
Equity minority interests		**(6,281)**	**–**	**(6,281)**	(4,034)	542	(3,492)
Profit for the financial year		**34,338**	**(5,315)**	**29,023**	35,276	3,003	38,279
Preference dividends	9	**(770)**	**–**	**(770)**	(770)	–	(770)
Profit attributable to ordinary capital		**33,568**	**(5,315)**	**28,253**	34,506	3,003	37,509
Ordinary dividends	9	**(14,782)**	**–**	**(14,782)**	(12,872)	–	(12,872)
Profit for the financial year retained	24	**18,786**	**(5,315)**	**13,471**	21,634	3,003	24,637
Basic earnings per ordinary share	10	**83.35p**	**(13.20)p**	**70.15p**	85.87p	7.48p	93.35p
Diluted earnings per ordinary share	10			**69.37p**			92.09p

The results for both years arise from continuing operations.

The restatement of comparatives is discussed in the turnover accounting policy on page 46.

RECOGNISED GAINS AND LOSSES, MOVEMENTS IN SHAREHOLDERS' FUNDS

Year to 31st May 2005

Statement of total recognised gains and losses

	2005 £000	2004 £000
Profit for the financial year	**29,023**	38,279
Currency retranslation	**5,551**	(20,085)
Surplus on revaluation	**–**	12,702
Total recognised gains and losses for the year	**34,574**	30,896

Reconciliation of movement in shareholders' funds

	2005 £000	2004 £000
Total recognised gains and losses for the year	**34,574**	30,896
Dividends	**(15,552)**	(13,642)
Shares purchased for ESOT	**(329)**	–
Shares to be awarded from ESOT	**162**	–
Net increase in shareholders' funds	**18,855**	17,254
Opening shareholders' funds as previously stated	**268,514**	251,260
Restatement of ESOT shares	**(970)**	–
Opening shareholders' funds as restated	**267,544**	251,260
Closing shareholders' funds	**286,399**	268,514

Note of historical cost profits and losses

	2005 £000	2004 £000
Reported profit on ordinary activities before taxation	**53,888**	59,989
Realisation of property revaluation gains of previous years	**2,353**	926
Adjustment of depreciation to historical cost basis	**883**	1,186
Historical cost profit on ordinary activities before taxation	**57,124**	62,101
Historical cost profit for the year retained after taxation, minority interests and dividends	**16,457**	26,326

BALANCE SHEETS

At 31st May 2005

		The Group		Parent company	
			Restated		Restated
		2005	2004	**2005**	2004
	Notes	**£000**	£000	**£000**	£000
Fixed assets					
Intangible assets	11	**45,287**	9,728	**–**	-
Tangible assets	12	**139,304**	146,657	**–**	-
Investments:					
Subsidiary companies	13	**–**	-	**120,061**	90,266
Interests in joint ventures:	14				
Share of gross assets		**9,852**	1,708	**–**	-
Share of gross liabilities		**(9,748)**	(1,689)	**–**	-
Share of net assets		**104**	19	**–**	-
Other investments	14	**572**	576	**–**	-
		676	595	**–**	-
		185,267	156,980	**120,061**	90,266
Current assets					
Stocks	15	**128,923**	112,586	**–**	-
Debtors falling due within one year	16	**72,323**	65,703	**36,840**	46,739
Debtors falling due after one year	16	**3,900**	5,568	**975**	1,170
Investments	17	**67,000**	80,339	**26,880**	42,883
Cash at bank and in hand		**14,845**	13,088	**–**	-
		286,991	277,284	**64,695**	90,792
Creditors - amounts falling due within one year	18	**(110,373)**	(101,327)	**(74,218)**	(60,419)
Net current assets / (liabilities)		**176,618**	175,957	**(9,523)**	30,373
Total assets less current liabilities		**361,885**	332,937	**110,538**	120,639
Creditors - amounts falling due after one year	18	**(17,982)**	(15,891)	**(9,127)**	(7,156)
Provisions for liabilities and charges	20	**(16,094)**	(11,193)	**(349)**	(76)
Net assets	1	**327,809**	305,853	**101,062**	113,407
Capital and reserves					
Equity ordinary share capital	23	**4,073**	4,073	**4,073**	4,073
Non-equity preference share capital	23	**7,898**	7,898	**7,898**	7,898
Total called up share capital	23	**11,971**	11,971	**11,971**	11,971
Reserves attributable to equity interests:					
Capital redemption reserve	24	**671**	671	**671**	671
Revaluation reserve	24	**40,249**	41,732	**–**	-
Profit and loss account	24	**234,645**	214,140	**89,557**	101,735
Other reserve	24	**(1,137)**	(970)	**(1,137)**	(970)
Total shareholders' funds		**286,399**	267,544	**101,062**	113,407
Equity minority interests	25	**41,410**	38,309	**–**	–
		327,809	305,853	**101,062**	113,407

The restatement of comparatives is discussed in the statement of accounting policies 'New accounting standards' section on page 46.

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

A J GREEN　　　C N GREEN
2nd August 2005

GROUP CASH FLOW STATEMENT

Year to 31st May 2005

		2005	2004
	Notes	**£000**	£000
Cash flow from operating activities	26 (i)	**53,866**	52,336
Returns on investments and servicing of finance	26 (ii)	**3,809**	965
Taxation		**(18,650)**	(15,647)
Capital expenditure and financial investment	26 (ii)	**(11,618)**	(10,000)
Acquisitions and disposals	26 (ii)	**(25,183)**	(100)
Equity dividends paid		**(13,129)**	(11,910)
Cash (outflow) / inflow before use of liquid resources and financing		**(10,905)**	15,644
Management of liquid resources	26 (ii)	**13,524**	(13,579)
Financing	26 (ii)	**2,804**	1,831
Increase in cash in the period		**5,423**	3,896

Reconciliation of net cash flow to movement in net funds 26 (iii)

	2005	2004
	£000	£000
Increase in cash in the period	**5,423**	3,896
Cash inflow from financing	**(2,804)**	(1,831)
Cash (inflow) / outflow from management of liquid resources	**(13,524)**	13,579
Change in net funds resulting from cash flows	**(10,905)**	15,644
Currency retranslation	**645**	(2,575)
Borrowings acquired with subsidiary	**(962)**	–
Movement in net funds in the period	**(11,222)**	13,069
Opening net funds	**85,176**	72,107
Closing net funds	**73,954**	85,176

STATEMENT OF ACCOUNTING POLICIES

Basis of accounting
The accounts have been prepared in accordance with applicable accounting standards under the historical cost convention adjusted to include the periodic revaluation of properties.

New accounting standards
During the year the Group has adopted UITF Abstract 38, "Accounting for ESOP trusts". In accordance with the Abstract, shares held in the Employee Share Ownership Trust have been reclassified from investments to other reserves. The impact of this reclassification is to reduce both the value of investments and the value of reserves at 31st May 2005 by £1,137,000 (31st May 2004 – £970,000).

Consolidation
(a) The consolidated accounts incorporate the accounts of PZ Cussons Plc and all its subsidiaries. Where appropriate the accounts of overseas subsidiaries are adjusted to conform to the Group's accounting policies. No credit is taken for the Group's share of profits on intra-group sales of goods until such goods have been sold to third parties.

(b) The total profits or losses of subsidiaries are included in the consolidated profit and loss account and the proportion of profit or loss after taxation applicable to minority interests in subsidiaries is excluded in arriving at the profit attributable to the shareholders of PZ Cussons Plc. Movements in reserves are shown net of taxation and of minority interests where appropriate.

(c) The total assets and liabilities of subsidiary companies are included in the consolidated balance sheet and the interests of minority shareholders in the net assets of subsidiaries are stated separately.

(d) The accounts of all subsidiary companies are made up to 31st May annually.

(e) The results of subsidiary companies acquired during the year are included from the effective date of acquisition.

Joint ventures
Joint ventures are included in the consolidated balance sheet at Group interest in the net assets on the basis of accounts made up to 31st May annually. The Group's share of profits is included in the consolidated profit and loss account.

Exchange rates
Exchange rates used to translate the profit and loss accounts of overseas subsidiaries are the average rates for the year.

Exchange rates used to translate overseas currency assets and liabilities (other than shares held by the parent company in overseas companies) are the rates ruling at the balance sheet date.

Currency gains and losses are included in operating profit or investment income as appropriate except that the difference arising on the retranslation of the Group's share, at the beginning of the year, of the net assets of overseas subsidiaries is treated as a movement in reserves.

Gains and losses on financial instruments that are hedging existing assets or liabilities are included in the carrying amounts of those assets and liabilities. Gains and losses on financial instruments that are hedging firm commitments or anticipated transactions are deferred and are recognised when the hedged transaction occurs.

Turnover
During the year the accounting policy for the treatment of sales discounts and rebates has been revised. Discounts and rebates have been accounted for as a reduction in revenue, having previously been treated as a selling and distribution cost. This accounting treatment is consistent with Financial Reporting Standard 5, "Reporting the substance of transactions" – Application Note G (issued November 2003) and in the directors' opinion more fairly reflects the nature of these transactions. For the 12 month period to May 2004 the impact of this revision has resulted in a reduction of both turnover and selling and distribution expenses of £30,628,000. There is no impact on earnings.

Group turnover comprises sales of goods and services after deduction of discounts and sales taxes but including interest receivable on sales on extended credit and income from the provision of technical services and licensing agreements.

Revenue is recognised when the risks and rewards of the ownership of underlying products and services have been substantially transferred to the customer and the Group has obtained the right to consideration.

Profit on ordinary activities
Profit on ordinary activities for the year is arrived at after charging or crediting all operating expenditure and revenue, whether normal or exceptional, including interest payable and receivable.

STATEMENT OF ACCOUNTING POLICIES CONTINUED

Intangible fixed assets and goodwill
Purchased brands are included in the balance sheet at cost less amortisation calculated on a straight line basis over the useful economic life of the brand. Provision is made for any impairment. All brands held in the balance sheet at 31st May 2005 are considered to have indefinite lives given their strength and durability and the level of marketing support. Accordingly they are not being amortised. Impairment reviews are carried out as required by Financial Reporting Standard 10, "Goodwill and intangible assets", and in accordance with Financial Reporting Standard 11, "Impairment of fixed assets and goodwill".

Prior to the year ended 31st May 1999, goodwill was set off against or added to reserves in the year of acquisition as a matter of accounting policy. With effect from 1st June 1998, in accordance with Financial Reporting Standard 10, "Goodwill and intangible assets", goodwill is capitalised and amortised on a straight line basis over its useful economic life subject to a maximum of twenty years. As permitted by the current accounting standard, goodwill previously set off against or added to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill would be included in determining the profit or loss on disposal.

Tangible fixed assets and depreciation
Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Individual freehold and leasehold properties are revalued every year with the surplus or deficit on book value being transferred to the revaluation reserve, except that a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account. A deficit which represents a clear consumption of economic benefits is charged to the profit and loss account regardless of any such previous surplus.

A full external valuation is carried out every five years together with an interim valuation in year three. In the intervening years, the properties are held at current cost based on the directors' valuation.

On the disposal or recognition of a provision for impairment of a revalued fixed asset, any related balance remaining in the revaluation reserve is also transferred to the profit and loss account as a movement on reserves.

In the case of leasehold properties, leases which at the balance sheet date have more than 50 years to run are designated as long leaseholds.

Depreciation is provided mainly on a straight line basis. The annual rates used, which are expected to write off the assets over their anticipated useful lives, are:

Freehold land	Nil
Freehold buildings at rates not less than	2%
Leasehold land and buildings at rates which will reduce the book value to nil on or before the termination of the leases with a minimum of	2%
Plant and machinery not less than	10%
Fixtures, fittings, vehicles not less than	20%

In the case of major projects depreciation is provided from the date the project in question is brought into use.

Government grants related to expenditure on tangible fixed assets are reflected in the balance sheet as deferred income and are credited to the profit and loss account at the same rate as the depreciation on the assets to which the grants relate.

Stocks
Stocks are stated at the lower of cost and estimated net realisable value. Cost in the case of the manufacturing subsidiaries includes an appropriate addition for manufacturing overheads.

Liquid resources, current asset investments and investment income
Liquid resources comprise term deposits of less than one year and current asset investments which are valued at the lower of cost and market value. Investment income takes account of profit or loss on redemption or sale of current asset investments.

STATEMENT OF ACCOUNTING POLICIES CONTINUED

Research and development

Research and development expenditure is charged against profits in the year in which it is incurred.

Pensions and retirement benefits

The Group operates retirement benefit schemes in the United Kingdom and for most overseas countries in which it carries on business. Those in the United Kingdom are defined benefit schemes; overseas schemes vary in detail depending on local practice.

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods benefiting from the employees' services. The difference between the charge to the profit and loss account and the contributions paid to the schemes is reflected in the balance sheet in debtors, creditors or provisions, in accordance with SSAP 24. The transitional disclosures required by Financial Reporting Standard 17, "Retirement benefits", have been included within the financial statements.

Taxation and deferred taxation

Taxation is computed at current rates on the profit for the year.

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

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of these assets, nor on unremitted earnings where there is no binding commitment to remit these earnings.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities are not discounted.

Employee share schemes

The Group operates a deferred annual share bonus scheme and an executive share option scheme for senior executives. The cost to the company of making awards in the form of shares or rights to shares under these schemes is charged to the profit and loss account over the period to which the employee's performance relates.

NOTES ON THE ACCOUNTS

1 Segmental reporting

	Third party turnover		**Profit before taxation**		**Net assets**	
		Restated				Restated
	2005	2004	**2005**	2004	**2005**	2004
	£000	£000	**£000**	£000	**£000**	£000
Geographical areas – by origin						
Europe	**213,036**	201,855	**21,219**	24,681	**138,208**	119,313
Africa	**159,367**	144,175	**20,840**	19,325	**106,088**	96,571
Asia	**107,715**	111,887	**11,881**	10,088	**51,463**	43,188
	480,118	457,917	**53,940**	54,094	**295,759**	259,072
Investment income / investments			**5,311**	6,561	**67,676**	80,934
Interest payable / overdrafts and loans			**(664)**	(1,868)	**(7,891)**	(8,251)
			58,587	58,787	**355,544**	331,755
Exceptional items (note 3)			**(4,699)**	1,202		
			53,888	59,989		
Tax and dividends					**(27,735)**	(25,902)
					327,809	305,853

The geographical analysis of exceptional items is given in note 3.

	Third party turnover		**Inter-segment turnover**		**Total turnover**	
		Restated				Restated
	2005	2004	**2005**	2004	**2005**	2004
	£000	£000	**£000**	£000	**£000**	£000
Turnover – by origin						
Europe	**213,036**	201,855	**116,839**	83,193	**329,875**	285,048
Africa	**159,367**	144,175	**180**	208	**159,547**	144,383
Asia	**107,715**	111,887	**1,001**	889	**108,716**	112,776
	480,118	457,917	**118,020**	84,290	**598,138**	542,207

	Third party turnover	
		Restated
	2005	2004
	£000	£000
Turnover – by destination		
Europe	**212,552**	200,901
Africa	**160,897**	145,193
Asia	**106,669**	111,823
	480,118	457,917

NOTES ON THE ACCOUNTS CONTINUED

2 Turnover and operating profit

	Before exceptional items £000	Exceptional items (note 3) £000	Total 2005 £000	Before exceptional items Restated £000	Exceptional items (note 3) £000	Total 2004 Restated £000
Analysis of turnover and operating profit						
Turnover	**480,118**	**–**	**480,118**	457,917	–	457,917
Cost of sales	**(284,499)**	**(6,070)**	**(290,569)**	(265,621)	(4,804)	(270,425)
Gross profit	**195,619**	**(6,070)**	**189,549**	192,296	(4,804)	187,492
Selling and distribution expenses	**(85,614)**	**(572)**	**(86,186)**	(85,767)	(1,185)	(86,952)
Administration expenses	**(56,065)**	**–**	**(56,065)**	(52,435)	1,248	(51,187)
Operating profit	**53,940**	**(6,642)**	**47,298**	54,094	(4,741)	49,353

	2005 £000	2004 Restated £000
Operating profit		
Is after charging / (crediting):		
Depreciation	**15,665**	15,997
Amortisation of goodwill and intangible assets	**–**	448
Profit on disposal of tangible fixed assets	**(4,067)**	(517)
Government grants	**(479)**	(447)
Research and development	**3,367**	4,018
Auditors' remuneration – audit fees	**350**	331
– tax advisory	**53**	39
– tax compliance	**104**	107
– other services	**49**	24

In addition, fees paid to Deloitte Hong Kong LLP in relation to the disposal of the Chinese business unit amounted to £235,000. These fees have been charged in arriving at the exceptional item on disposal of the China business.

3 Exceptional items

Exceptional items are summarised in the following table and are explained in the narrative below:

Exceptional item	**Effect on:**	**Profit before taxation £000**	**Taxation £000**	**Retained profit £000**
Included within operating profit:				
Restructuring of UK operations (i)		(4,905)	1,471	**(3,434)**
Restructuring of Polish operations (ii)		(1,737)	–	**(1,737)**
Sub-total		**(6,642)**	**1,471**	**(5,171)**
Below operating profit:				
Sale of UK properties (iii)		5,295	(2,087)	**3,208**
Loss on disposal of China (iv)		(3,352)	–	**(3,352)**
Sub-total		**1,943**	**(2,087)**	**(144)**
Total		**(4,699)**	**(616)**	**(5,315)**

NOTES ON THE ACCOUNTS CONTINUED

3 Exceptional items continued

Year to 31st May 2005:

(i) Restructuring of UK operations
During the year, a decision was taken to close the soap manufacturing factory in Nottingham and transfer the production to PZ Cussons Thailand. The charge of £4,905,000 comprises provisions for redundancy and other associated restructuring costs.

(ii) Restructuring of Polish operations
During the year a restructuring program was undertaken in Poland to rationalise the Group's Eastern European operations. This involved our withdrawal from Russia and a decision to close the liquids and creams factory in Warsaw resulting in exceptional costs totalling £1,737,000.

(iii) Sale of UK properties
During the year, the sales of both our Bury warehouse and UK head office were completed resulting in exceptional profits totalling £5,295,000.

(iv) Disposal of China business
With the continuing losses in the Chinese operating unit a decision was made to dispose of the business. This resulted in an exceptional loss on sale of £3,352,000.

Year to 31st May 2004:

(i) Closure of Australian soap manufacturing plant
During the year, a decision was taken to close the soap manufacturing plant in Australia and transfer the production to PZ Cussons Indonesia. The charge of £3,012,000 comprised impairment provisions in respect of plant and machinery calculated based on the estimated net realisable value of the assets, together with provisions for redundancy and other associated closure costs.

(ii) Impairment of China fixed assets and goodwill
A review of the China business and its future cashflows was performed and a net present value calculated using a discount rate of 10% with the conclusion being that the value of plant and machinery and goodwill was impaired and that an impairment provision of £2,662,000 to zero value was required.

(iii) Restructuring of UK warehouse operations
During the year, the warehouse operations of the UK business were closed and the distribution was outsourced to a third party, resulting in a total exceptional charge of £1,185,000.

(iv) Write back of Nigeria negative goodwill
During the year, the company reviewed the continuing negative goodwill balance against the performance of the related acquisition in Nigeria. The directors concluded that the benefit of this had been obtained since May 2001. As it was not possible to allocate the amount accurately across prior years, and indeed such allocation would not have been material in the context of the business, the total amount of £2,118,000 was written back in the year as exceptional.

(v) Sale of 1001 brand
During the year, the 1001 brand was sold at a profit of £5,943,000.

NOTES ON THE ACCOUNTS CONTINUED

4 Staff numbers and costs

	2005 Number	2004 Number
The average number employed by the Group, including directors, within each category was:		
Production	**6,969**	7,167
Selling and distribution	**2,777**	2,806
Administration	**1,486**	1,654
	11,232	11,627

	£000	£000
The costs incurred in respect of the above were:		
Wages and salaries	**61,119**	58,200
Social security and other costs	**5,542**	5,760
Pension costs	**6,946**	6,331
	73,607	70,291

Further information on pension costs is given in note 22.

5 Directors' emoluments

Details of individual directors' remuneration and pension benefits required by the Companies Act 1985 and those specified for audit by the UK Listing Authority are given in the report on directors' remuneration and form part of these financial statements.

6 Investment income and interest payable

	2005 £000	2004 £000
Current asset investment income:		
Investment gains less provisions	**3,006**	3,156
Interest and dividends receivable	**2,305**	3,405
	5,311	6,561
Interest payable – bank loans and overdrafts	**(664)**	(1,868)
	4,647	4,693

NOTES ON THE ACCOUNTS CONTINUED

7 Taxation on profit on ordinary activities

(i) Analysis of charge in year	2005 £000	2005 £000	2004 £000	2004 £000
Current taxation:				
United Kingdom corporation tax charge for the year	**13,925**		13,866	
Adjustments in respect of prior periods	**(315)**		333	
	13,610		14,199	
Double taxation relief	**(3,686)**		(6,395)	
		9,924		7,804
Overseas taxation	**10,863**		10,779	
Adjustments in respect of prior periods	**(441)**		(443)	
		10,422		10,336
Total current tax charge (note 7(ii))		**20,346**		18,140
Deferred taxation:				
Timing differences, origination and reversal	**(2,072)**		174	
Adjustments in respect of prior periods	**310**		(96)	
Total deferred tax (note 21)		**(1,762)**		78
Taxation on profit on ordinary activities		**18,584**		18,218

(ii) Factors affecting the tax charge for the year	2005 £000	2004 £000
The tax assessed for the period is higher (2004 – higher) than the standard rate of corporation tax in the UK. The differences are explained below:		
Profit on ordinary activities before tax	**53,888**	59,989
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 30% (2004 – 30%)	**16,166**	17,997
Effects of:		
Expenses not deductible for tax purposes	**883**	941
Profit / (loss) on disposal of investments	**151**	(234)
Capital allowances for the period lower than / (in excess of) depreciation	**281**	(2,599)
Other timing differences	**1,536**	2,425
Excess losses for which there is no tax credit	**1,775**	1,070
Unrelieved foreign taxes	**500**	839
Sale of brand	**–**	(1,783)
Sale of properties	**507**	–
Loss on sale of investment in China	**1,005**	–
Write back of goodwill	**–**	(406)
Overseas tax rates	**(1,702)**	–
Prior period adjustment	**(756)**	(110)
Current tax charge for the period (note 7(i))	**20,346**	18,140

(iii) Factors which may affect future tax charges

No provision has been made for deferred tax on gains recognised on the revaluation of property to its market value or on the sale of properties where potential taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided is £8m. At present, it is not envisaged that any tax will become payable in the foreseeable future.

Deferred tax assets have not been recognised in relation to tax losses carried forward and other timing differences arising in the subsidiaries located in Poland and India. The estimated value of the deferred tax asset not recognised is £2.3m. This deferred tax asset would only be recognised in the event that the Group's businesses in Poland and India generated suitable profits in future years.

NOTES ON THE ACCOUNTS CONTINUED

8 Profit of the parent company

As permitted by section 230 of the Companies Act 1985, as amended, the company has not presented a separate profit and loss account. The profit for the financial year dealt with in the accounts of the parent company is £3,374,000 (2004 – £1,866,000).

9 Dividends

	2005 £000	2004 £000
On non-equity capital		
7½% cumulative preference shares	**59**	59
10% cumulative preference shares	**711**	711
	770	770
On equity capital		
Ordinary and 'A' ordinary shares:		
Adjustment for proposed final on shares transferred from ESOT	**22**	2
Interim at 8.65p per share (2004 – 8.05p)	**3,484**	3,246
Proposed final at 26.60p per share payable 28th September 2005 (2004 – 23.95p)	**11,276**	9,624
	14,782	12,872
Total dividends	**15,552**	13,642

At 31st May 2005, the Paterson Zochonis Employee Trust held 242,318 ordinary shares (2004 – 287,565) and 214,353 'A' ordinary shares (2004 – 260,065). The trust has waived any entitlement to the dividends on these shares.

10 Earnings per ordinary share

		2005 Number 000	2004 Number 000
Shares			
Basic weighted average ordinary and 'A' ordinary shares in issue during the year		**40,272**	40,182
Dilutive effect of deferred annual share bonus scheme		**457**	547
Diluted weighted average ordinary and 'A' ordinary shares		**40,729**	40,729
		£000	£000
Earnings (for basic and diluted earnings per share)			
Profit attributable to ordinary capital before exceptional items		**33,568**	34,506
Exceptional items within operating profit (note 3)		**(5,171)**	(2,940)
Exceptional items below operating profit (note 3)		**(144)**	5,943
Profit attributable to ordinary capital after exceptional items		**28,253**	37,509
		per share	per share
Earnings per share			
Basic earnings per ordinary and 'A' ordinary share:			
Underlying earnings per share		**83.35p**	85.87p
Effect of exceptional items (note 3):			
Restructuring of UK operations	(8.53)p		
Restructuring of Polish operations	(4.31)p		
Total effect of exceptional items included within operating profit		**(12.84)p**	(7.32)p
Sale of UK properties	7.96p		
Loss on disposal of China business	(8.32)p		
Total effect of exceptional items included below operating profit		**(0.36)p**	14.80p
Basic earnings per ordinary and 'A' ordinary share		**70.15p**	93.35p
Diluted earnings per ordinary and 'A' ordinary share		**69.37p**	92.09p

To assist comparison, an underlying earnings per share has also been calculated to exclude the impact of exceptional items.

NOTES ON THE ACCOUNTS CONTINUED

11 Intangible fixed assets

	Brands £000
The Group	
Cost	
At 1st June 2004	10,661
Acquisitions	29,302
Additions	6,257
At 31st May 2005	**46,220**
Amortisation and amounts written off	
At 1st June 2004 and 31st May 2005	**933**
Net book values	
At 31st May 2005	**45,287**
At 31st May 2004	9,728

Acquisitions represent the value of the Charles Worthington brand purchased as part of the acqusition of Charles Worthington Hair and Beauty Ltd (see note 28).

Additions represent the purchase of the Trix brand in May 2005.

12 Tangible fixed assets

	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, vehicles £000	Assets in course of construction £000	Total £000
The Group					
Cost or valuation					
At 1st June 2004	88,119	143,886	26,688	6,896	265,589
Currency retranslation	2,548	3,533	784	50	6,915
Acquisitions	44	315	271	–	630
Additions	1,523	4,977	3,254	8,607	18,361
Disposals	(8,820)	(7,045)	(2,100)	(2)	(17,967)
Sale of company	(4,105)	(7,020)	(811)	(28)	(11,964)
Reclassifications	518	3,259	1,010	(4,787)	–
At 31st May 2005	**79,827**	**141,905**	**29,096**	**10,736**	**261,564**
Depreciation and amounts written off					
At 1st June 2004	269	98,563	20,100	–	118,932
Currency retranslation	46	2,610	705	–	3,361
Acquisitions	11	106	88	–	205
Charge for the year	1,938	10,552	3,175	–	15,665
Disposals	(280)	(6,101)	(1,769)	–	(8,150)
Sale of company	-	(6,995)	(758)	–	(7,753)
At 31st May 2005	**1,984**	**98,735**	**21,541**	**–**	**122,260**
Net book values					
At 31st May 2005	**77,843**	**43,170**	**7,555**	**10,736**	**139,304**
At 31st May 2004	87,850	45,323	6,588	6,896	146,657

NOTES ON THE ACCOUNTS CONTINUED

12 Tangible fixed assets continued

Land and buildings

	The Group 2005 £000	2004 £000
Cost or valuation		
Freehold land	**8,123**	9,999
Freehold buildings	**18,686**	23,585
Long leasehold	**36,920**	39,518
Short leasehold	**16,098**	15,017
	79,827	88,119
Accumulated depreciation		
Freehold buildings	**691**	177
Long leasehold	**902**	–
Short leasehold	**391**	92
	1,984	269
Land and buildings at cost or last full valuation are stated:		
At open market valuation	**77,742**	88,119
At cost	**2,085**	–
	79,827	88,119

The majority of the Group's properties were fully revalued at 31st May 2004 by CB Richard Ellis, international property consultants, on the basis of open market value subject to existing use or, for specialised properties, on a depreciated replacement cost basis.

All other tangible fixed assets are stated at cost.

	The Group 2005 £000	2004 £000
If stated under historical cost principles the comparable amounts for the total of land and buildings would be:		
Cost	**40,750**	49,734
Accumulated depreciation	**12,348**	12,982
Historical cost net book value	**28,402**	36,752
Future capital expenditure		
Commitments placed at year-end	**8,003**	7,017

NOTES ON THE ACCOUNTS CONTINUED

13 Subsidiary companies

	Shares £000	Loans £000	Total £000
Parent company			
Cost at 1st June 2004	92,795	4,384	97,179
Additions in the year	27,548	–	27,548
Cost at 31st May 2005	**120,343**	**4,384**	**124,727**
Provisions at 1st June 2004	6,913	–	6,913
Released in the year	(2,247)	–	(2,247)
Provisions at 31st May 2005	**4,666**	**–**	**4,666**
Net book value at 31st May 2005	**115,677**	**4,384**	**120,061**
Net book value at 31st May 2004	85,882	4,384	90,266

Details of principal Group companies are given in note 31.

Additions in the year represent the acquisition of Charles Worthington Hair and Beauty Ltd (see note 28).

14 Investments

	The Group 2005 £000	The Group Restated 2004 £000	Parent company 2005 £000	Parent company Restated 2004 £000
Interests in joint ventures				
At 1st June – share of net assets	**19**	–	**–**	–
Additions	**85**	19	**–**	–
At 31st May – share of net assets	**104**	19	**–**	–
Fixed asset investments	**572**	576	**–**	–
Total investments	**676**	595	**–**	–

Interests in joint ventures relates to an investment in Milk Ventures (UK) Ltd (note 31). The Milk Ventures group commenced production but made no sales during the year and accordingly had no impact on the profit and loss account.

Fixed asset investments relates to a 25% investment in Norpalm Ghana Ltd, a palm oil plantation in Ghana (note 31). The Group does not exercise a significant influence over the affairs of this company and it is therefore not treated as an associated company.

15 Stocks

	The Group 2005 £000	The Group 2004 £000	Parent company 2005 £000	Parent company 2004 £000
Raw materials and consumables	**72,466**	63,086	**–**	–
Work in progress	**3,230**	3,577	**–**	–
Finished goods and goods for resale	**53,227**	45,923	**–**	–
	128,923	112,586	**–**	–

NOTES ON THE ACCOUNTS CONTINUED

16 Debtors

	The Group		Parent company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Trade debtors	**45,219**	46,000	**–**	–
Amounts owed by Group companies	**–**	–	**33,741**	42,901
Amounts owed by joint ventures (note 30)	**9,931**	1,928	**–**	–
United Kingdom corporation tax recoverable	**1,514**	–	**1,097**	–
Overseas taxation recoverable	**474**	379	**54**	48
Other debtors, including deposits	**10,074**	10,076	**–**	–
Prepayments and accrued income	**5,002**	7,208	**1,753**	3,595
Pension fund prepayment	**1,170**	4,179	**1,170**	1,365
Deferred taxation (note 21)	**2,839**	1,501	**–**	–
	76,223	71,271	**37,815**	47,909
Included above, but falling due after more than one year:				
Overseas taxation recoverable	**16**	19	**–**	–
Other debtors	**93**	126	**–**	–
Prepayments and accrued income	**27**	20	**–**	–
Pension fund prepayment	**975**	3,984	**975**	1,170
Deferred taxation (note 21)	**2,789**	1,419	**–**	–
	3,900	5,568	**975**	1,170

17 Current asset investments

	The Group		Parent company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
At cost less amounts written off:				
Listed	**13,957**	11,666	**–**	–
Unlisted	**2,225**	3,627	**328**	328
Deposits	**50,818**	65,046	**26,552**	42,555
	67,000	80,339	**26,880**	42,883
Market value of listed investments	**16,769**	14,888	**–**	–

If the listed investments had been realised at 31st May 2005 at market value, there would have been a liability to taxation estimated at £816,000 (2004 – £517,000).

NOTES ON THE ACCOUNTS CONTINUED

18 Creditors

	The Group		Parent company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Due within one year				
Bank loans and overdrafts (note 19)	**5,173**	8,251	**3,840**	1,299
Trade creditors	**41,665**	32,648	**–**	–
Amounts owed to Group companies	**–**	–	**56,606**	47,892
Amounts owed to joint ventures (note 30)	**–**	1,621	**–**	–
United Kingdom corporation tax	**11,433**	8,769	**717**	820
Overseas income tax	**5,118**	4,451	**–**	–
Other taxation and social security	**1,825**	2,826	**–**	–
Other creditors	**10,670**	9,841	**1,012**	12
Accruals and deferred income	**23,213**	23,296	**767**	772
Proposed dividends	**11,276**	9,624	**11,276**	9,624
	110,373	101,327	**74,218**	60,419
Due after one year				
Bank loans (note 19)	**2,718**	–	**–**	–
Overseas income tax	**684**	467	**–**	–
Other creditors	**3,216**	592	**2,587**	–
Accruals and deferred income	**1,818**	2,284	**–**	–
Pension fund accrual and deferred income	**9,546**	12,548	**6,540**	7,156
	17,982	15,891	**9,127**	7,156

19 Bank loans and overdrafts

Bank loans and overdrafts due within one year	**5,173**	8,251	**3,840**	1,299
Bank loans due after one year	**2,718**	–	**–**	–
	7,891	8,251	**3,840**	1,299

The interest rate profile of borrowings is given in note 27.

20 Provisions for liabilities and charges

	Deferred taxation (note 21)	**Pensions and similar obligations**	**Others**	**Total**
	£000	**£000**	**£000**	**£000**
The Group				
At 1st June 2004	4,471	6,260	462	11,193
Currency retranslation	44	200	1	245
Profit and loss account	(466)	2,017	4,599	6,150
Utilised in the year	–	(1,444)	(50)	(1,494)
At 31st May 2005	**4,049**	**7,033**	**5,012**	**16,094**
Parent company				
At 1st June 2004	76	–	–	76
Profit and loss account	273	–	–	273
At 31st May 2005	**349**	**–**	**–**	**349**

NOTES ON THE ACCOUNTS CONTINUED

21 Deferred taxation

	Debtors £000	Provisions £000	Total £000
The Group			
At 1st June 2004	1,501	(4,471)	(2,970)
Currency retranslation	42	(44)	(2)
Profit and loss account	1,296	466	1,762
At 31st May 2005	**2,839**	**(4,049)**	**(1,210)**
Parent company			
At 1st June 2004	–	(76)	(76)
Profit and loss account	–	(273)	(273)
At 31st May 2005	**–**	**(349)**	**(349)**

	The Group		Parent company	
	2005 £000	2004 £000	**2005 £000**	2004 £000
Provided in the accounts:				
Tangible fixed assets	**(9,251)**	(9,256)	**–**	–
Pension provision	**1,016**	1,177	**(351)**	(409)
Other timing differences	**7,025**	5,109	**2**	333
	(1,210)	(2,970)	**(349)**	(76)

NOTES ON THE ACCOUNTS CONTINUED

22 Pensions and retirement benefits

(a) Overview

The company operates retirement benefit schemes for most of its United Kingdom and overseas subsidiaries.

The only schemes which are considered material on a Group basis are those based in the UK. The following three schemes are based and administered in the UK:

- Main staff plan – for all eligible UK based staff, excluding PZ Cussons Plc executive directors.
- Directors plan – for PZ Cussons Plc executive directors.
- Expatriate plan – for all eligible expatriate staff based outside the UK.

Employees within these schemes are provided with defined benefits based on service and final salary. The assets of the schemes are administered by trustees and are held in trust funds independent of the company.

(b) Valuations

The last triennial actuarial valuations of the schemes administered in the UK were performed by independent professional actuaries at 1st June 2003 using the projected unit method of valuation. The actuarial valuations revealed asset values of £161m, surpluses of £6.6m with a combined funding level of 104%. The net surplus of £6.6m is made up of deficits in the staff and directors plans of £8.3m and £0.5m respectively and a surplus in the expatriate plan of £15.4m. Deficits/surpluses are being charged/credited to profit over the remaining service lives of the existing employees.

For the schemes providing benefits to UK employees the actuary has, in arriving at these figures, assumed an annual rate of investment return of 5.9% (modified to 5.4% post-retirement for the directors' plan), annual earnings inflation of 4.4%, and present and future annual inflation related pension increases of 2.4%. For the expatriate plan the actuary has assumed an annual rate of investment return of 5.6%, annual earnings inflation of 6.9% and present and future annual inflation related pension increases of 2.4%.

Valuations of the schemes on a FRS 17 basis are shown below and indicate a net pension deficit for the three UK based schemes of £2.9m as at 31st May 2005. This is made up of deficits in the staff and directors plans of £25.0m and £1.0m respectively, and a surplus in the expatriate plan of £23.1m.

(c) Pension costs

For the year to 31st May 2005, in line with SSAP 24, the pension charge for the schemes administered in the UK amounted to £4,023,000 (2004 – £3,856,000) based on the last actuarial valuation at 1st June 2003. This comprised a regular charge of £4,733,000 (2004 – £4,715,000) reduced by the credit for past service surpluses of £710,000 (2004 – £859,000).

(d) Transitional disclosures for Financial Reporting Standard 17, "Retirement benefits"

The following disclosure for FRS 17 purposes, for all UK based schemes, has been based on the actuarial valuations carried out at 31st May 2005 by independent professional actuaries.

For all three arrangements, the major assumptions used by the actuaries were:

	31st May 2005	31st May 2004	31st May 2003
Rate of increase in salaries	**4.70%**	5.00%	4.40%
Rate of increase in pensions in payment	**2.70%**	3.00%	2.40%
Discount rate	**5.10%**	5.80%	5.10%
Inflation assumption	**2.70%**	3.00%	2.40%

The assets in the schemes and the expected rates of return were:

	31st May 2005	**£m**	31st May 2004	£m	31st May 2003	£m
Equities	**6.40%**	**97.2**	7.10%	87.1	6.39%	75.8
Bonds	**4.20%**	**90.5**	4.80%	81.2	4.26%	80.6
Cash	**4.00%**	**7.1**	4.00%	6.1	3.89%	4.9
Total market value of assets		**194.8**		174.4		161.3
Present value of scheme liabilities		**(197.7)**		(174.1)		(172.2)
(Deficit) / surplus in the schemes		**(2.9)**		0.3		(10.9)
Related deferred tax asset / (liability)		**0.9**		(0.1)		3.3
Net pension (liability) / asset		**(2.0)**		0.2		(7.6)

NOTES ON THE ACCOUNTS CONTINUED

22 Pensions and retirement benefits continued

Analysis of the amount that would have been charged to profit and loss account under FRS 17

	Year to 31st May 2005 £m	Year to 31st May 2004 £m
Service cost	**(4.5)**	(4.5)
Past service cost	**–**	(0.5)
Total operating charge	**(4.5)**	(5.0)
Expected return on pension scheme assets	**10.3**	8.5
Interest on pension liabilities	**(10.1)**	(8.8)
Net return / (charge)	**0.2**	(0.3)
Total profit and loss effect	**(4.3)**	(5.3)

The impact on the balance sheet and reserves at 31st May of adopting FRS 17 would have been as follows:

	31st May 2005 £m	31st May 2004 £m
Net assets per balance sheet	**327.8**	305.9
Pension liability per SSAP 24	**9.0**	9.0
Deferred tax asset	**(2.7)**	(2.7)
Net assets excluding net pension liability	**334.1**	312.2
Net pension (liability) / asset per FRS 17	**(2.0)**	0.2
Net assets per FRS 17	**332.1**	312.4
Profit and loss reserve per balance sheet	**234.6**	214.1
Net pension liability per SSAP 24	**6.3**	6.3
Net pension (liability) / asset per FRS 17	**(2.0)**	0.2
Profit and loss reserve per FRS 17	**238.9**	220.6

The impact on the statement of total recognised gains and losses of adopting FRS 17 would have been as follows:

	Year to 31st May 2005 £m	Year to 31st May 2004 £m
Actual return less expected return on assets	**10.5**	5.0
Experience gains and losses on liabilities	**0.1**	(0.1)
Changes in assumptions	**(14.0)**	7.5
Actuarial (loss) / gain recognised in statement of total recognised gains and losses	**(3.4)**	12.4

NOTES ON THE ACCOUNTS CONTINUED

22 Pensions and retirement benefits continued

The movement in the (deficit) / surplus of the schemes during the year under FRS 17 would have been as follows:

	Year to 31st May 2005 £m	Year to 31st May 2004 £m
Surplus / (deficit) at beginning of year	**0.3**	(10.9)
Movement in year:		
Current service cost	**(4.5)**	(4.5)
Past service cost	**–**	(0.5)
Contributions	**4.5**	4.1
Net return / (interest) on assets and liabilities	**0.2**	(0.3)
Actuarial (loss) / gain	**(3.4)**	12.4
(Deficit) / surplus at end of year	**(2.9)**	0.3

History of experience gains and losses

The following disclosures will be built up over time as a five year history:

	2005	2004	2003
Difference between expected and actual return on scheme assets:			
Amount (£m)	**10.5**	5.0	(13.5)
Percentage of scheme assets	**5%**	3%	(8%)
Experience gains and losses on scheme liabilities:			
Amount (£m)	**0.1**	(0.1)	2.3
Percentage of scheme liabilities	**0%**	0%	1%
Total amount recognised in statement of total recognised gains and losses:			
Amount (£m)	**(3.4)**	12.4	(34.8)
Percentage of scheme liabilities	**(2%)**	7%	(20%)

NOTES ON THE ACCOUNTS CONTINUED

23 Called up share capital

	2005 Number 000	**2005 Amount £000**	2004 Number 000	2004 Amount £000
Authorised:				
Attributable to equity interests:				
Ordinary shares of 10p each	**25,000**	**2,500**	25,000	2,500
'A' (non-voting) ordinary shares of 10p each	**25,000**	**2,500**	25,000	2,500
	50,000	**5,000**	50,000	5,000
Attributable to non-equity interests:				
7½% cumulative preference shares of £1 each	**800**	**800**	800	800
10% cumulative preference shares of £1 each	**7,500**	**7,500**	7,500	7,500
	8,300	**8,300**	8,300	8,300
Total authorised share capital		**13,300**		13,300
Allotted, called up and fully paid:				
Attributable to equity interests:				
Ordinary shares of 10p each	**21,429**	**2,143**	21,429	2,143
'A' (non-voting) ordinary shares of 10p each	**19,300**	**1,930**	19,300	1,930
	40,729	**4,073**	40,729	4,073
Attributable to non-equity interests:				
7½% cumulative preference shares of £1 each	**782**	**782**	782	782
10% cumulative preference shares of £1 each	**7,116**	**7,116**	7,116	7,116
	7,898	**7,898**	7,898	7,898
Total called up share capital		**11,971**		11,971

The 'A' (non-voting) ordinary shares do not confer on the holders thereof the right to receive notices of general meetings of the company or to attend or vote thereat. In all other respects the 'A' (non-voting) ordinary shares rank *pari-passu* with the ordinary shares.

The preference shares do not entitle the holders:

1 To vote on any resolution (other than resolutions for winding up the company or reducing its share capital or varying any special rights attached to these shares) unless at the date of notice of meeting at which such resolution is to be proposed the dividend on these shares is six months in arrears.

2 To receive notice of or attend any general meeting unless the business of the meeting includes the consideration of a resolution on which such holders are entitled to vote. On a poll in respect of such resolution the holders will have one vote for each preference share of £1 held.

On a return of assets on a winding up or reduction of capital, the assets of the company available for distribution will be applied first in repaying to the holders of preference shares the amounts paid up on such shares together with any arrears or deficiency of the fixed dividend thereon calculated up to the date of the return of capital, payable whether or not such dividend has been declared or earned. The balance of such assets will belong to and be distributed to holders of ordinary shares and 'A' (non-voting) ordinary shares.

NOTES ON THE ACCOUNTS CONTINUED

24 Reserves

	Revaluation reserve £000	**Capital redemption reserve £000**	**Profit and loss account £000**	**Other reserve £000**	**Total £000**
The Group					
At 1st June 2004 as previously stated	41,732	671	214,140	–	256,543
Restatement of ESOT shares	–	–	–	(970)	(970)
At 1st June 2004 as restated	41,732	671	214,140	(970)	255,573
Currency retranslation	965	–	4,586	–	5,551
Profit for the financial year retained	–	–	13,471	–	13,471
Realisation of revaluation surplus	(2,448)	–	2,448	–	–
Shares purchased for ESOT	–	–	–	(329)	(329)
Shares to be awarded from ESOT	–	–	–	162	162
At 31st May 2005	**40,249**	**671**	**234,645**	**(1,137)**	**274,428**
Parent company					
At 1st June 2004 as previously stated		671	101,735	–	102,406
Restatement of ESOT shares		–	–	(970)	(970)
At 1st June 2004 as restated		671	101,735	(970)	101,436
Loss for the financial year retained		–	(12,178)	–	(12,178)
Shares purchased for ESOT		–	–	(329)	(329)
Shares to be awarded from ESOT		–	–	162	162
At 31st May 2005		**671**	**89,557**	**(1,137)**	**89,091**

	Parent company £000	**Subsidiaries £000**	**Total £000**
Total reserves			
At 1st June 2004 as previously stated	102,406	154,137	256,543
Restatement of ESOT shares	(970)	–	(970)
At 1st June 2004 as restated	101,436	154,137	255,573
Currency retranslation	–	5,551	5,551
Profit for the financial year retained	(12,178)	25,649	13,471
Shares purchased for ESOT	(329)	–	(329)
Shares to be awarded from ESOT	162	–	162
At 31st May 2005	**89,091**	**185,337**	**274,428**

Note: The cumulative goodwill written off against Group reserves is £10,691,000 (2004 – £10,691,000).

NOTES ON THE ACCOUNTS CONTINUED

24 Reserves continued

Other reserve - Group and parent company

	Shares held in trust Number	Cost £000	Charged to profit and loss account £000	Net book value £000
At 1st June 2004	547,630	4,096	(3,126)	970
Shares purchased	26,807	329	–	329
Shares transferred out	(117,766)	–	–	–
Shares to be awarded	–	–	(162)	(162)
At 31st May 2005	**456,671**	**4,425**	**(3,288)**	**1,137**

Shares purchased represents the cost of shares purchased during the year and held by the Paterson Zochonis Employee Trust to fund the deferred annual share bonus scheme, details of which are provided in the report on directors' remuneration.

These shares are to be awarded for the achievement of annual targets, normally to be received after three years of continuing employment.

At 31st May 2005, the trust held 242,318 ordinary shares and 214,353 'A' ordinary shares with market values of £3,184,059 and £2,390,036 respectively. The trust has waived any entitlement to dividends in respect of all its holding of the company's shares.

25 Minority interests

	£000
The Group	
At 1st June 2004	38,309
Currency retranslation	424
Profit after taxation for the financial year	6,281
Dividend paid and proposed	(2,367)
Sale of subsidiary undertakings	(1,237)
At 31st May 2005	**41,410**

NOTES ON THE ACCOUNTS CONTINUED

26 Notes on the Group cash flow statement

	2005 £000	2004 £000
(i) Reconciliation of operating profit to operating cash flows		
Operating profit	**47,298**	49,353
Amortisation of goodwill and intangible assets	**–**	448
Depreciation and adjustments on disposals	**11,598**	15,480
Provisions	**5,151**	(2,074)
Stocks	**(13,371)**	(4,587)
Debtors	**6,660**	(10,114)
Creditors	**(3,632)**	218
Add back charge for shares purchased for ESOT	**162**	731
Impairment of goodwill and tangible fixed assets	**–**	2,881
Net cash flow from operating activities	**53,866**	52,336
(ii) Analysis of amounts shown net in the cash flow statement		
Returns on investments and servicing of finance		
Investment income received	**7,118**	5,409
Interest paid	**(664)**	(1,868)
Preference dividends paid to PZ Cussons Plc shareholders	**(770)**	(770)
Dividends paid to minority shareholders in subsidiary companies	**(1,875)**	(1,806)
Net cash inflow for returns on investments and servicing of finance	**3,809**	965
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(18,258)**	(14,376)
Sale of tangible fixed assets	**19,179**	2,624
Purchase of intangible fixed assets	**(6,010)**	–
Sale of intangible fixed assets	**–**	5,270
Purchase of shares for ESOT	**(329)**	(1,492)
Purchase of fixed asset investments	**–**	(576)
Loans to joint ventures	**(6,200)**	(1,450)
Net cash outflow for capital expenditure and financial investment	**(11,618)**	(10,000)
Acquisitions and disposals		
Purchase of subsidiaries	**(22,963)**	–
Net overdrafts acquired with subsidiary undertaking	**(1,489)**	–
Net cash balances disposed of with subsidiary undertaking	**(235)**	–
Payments to acquire interests in joint ventures	**(496)**	(100)
Net cash outflow for acquisitions and disposals	**(25,183)**	(100)
Management of liquid resources		
Net decrease / (increase) in short term deposits	**14,273**	(12,105)
Purchase of current asset investments	**(9,344)**	(8,433)
Sale of current asset investments	**8,595**	6,959
Net cash inflow / (outflow) from management of liquid resources	**13,524**	(13,579)
Financing		
Net increase in short term borrowing	**2,804**	1,831
Net cash inflow from financing	**2,804**	1,831

NOTES ON THE ACCOUNTS CONTINUED

26 Notes on the Group cash flow statement continued

(iii) Analysis of net funds

	At 31st May 2004 £000	Cash flow £000	Acquisition £000	Exchange difference £000	At 31st May 2005 £000
Cash at bank and in hand	13,088	1,228	–	529	**14,845**
Overdrafts	(4,499)	4,195	–	(7)	**(311)**
		5,423			
Loans due within one year	(3,752)	(118)	(962)	(30)	**(4,862)**
Loans due after one year	–	(2,686)	–	(32)	**(2,718)**
		(2,804)			
Deposits	65,046	(14,273)	–	45	**50,818**
Other current asset investments	15,293	749	–	140	**16,182**
		(13,524)			
	85,176	(10,905)	(962)	645	**73,954**

27 Currency and interest rate profile of net funds

As at 31st May 2005, the currency and interest rate profile of the Group's net funds was as follows:

	Cash and deposits £000	Listed and unlisted investments £000	Floating rate borrowings £000	Fixed rate borrowings £000	Total £000
Sterling	26,339	13,957	(3,895)	–	**36,401**
Other European currencies	8,564	–	(4)	–	**8,560**
US dollar	14,242	1,897	–	–	**16,139**
Other	16,518	328	(1,274)	(2,718)	**12,854**
Total	65,663	16,182	(5,173)	(2,718)	**73,954**

The corresponding figures as at 31st May 2004 were as follows:

	Cash and deposits £000	Listed and unlisted investments £000	Floating rate borrowings £000	Fixed rate borrowings £000	Total £000
Sterling	46,303	11,667	(1,296)	–	**56,674**
Other European currencies	1,618	1,137	(1,739)	–	**1,016**
US dollar	16,508	2,161	(3,279)	–	**15,390**
Other	13,705	328	(1,937)	–	**12,096**
Total	78,134	15,293	(8,251)	–	**85,176**

NOTES ON THE ACCOUNTS CONTINUED

27 Currency and interest rate profile of net funds continued

No fair value table has been presented since it is considered that there is no material difference between fair value and the carrying amount of financial assets and liabilities, except for the market value of listed investments which is given in note 17.

Floating rate deposits and borrowings bear interest, in the main, with reference to the relevant national LIBID/LIBOR equivalents.

At 31st May 2005 there were no fixed rate deposits (31st May 2004 – Nil). During the year a fixed rate loan was taken out in Thai baht at a rate of 4.95% (31st May 2004 – Nil).

The maturity profile of borrowings is given in note 19.

At 31st May 2005, the Group had undrawn overdraft facilities of £90m (31st May 2004 – £118m) available to it. There are no committed facilities at 31st May 2005 (31st May 2004 – Nil).

As discussed in the report of the directors, the Group's main foreign currency exposure relates to US dollar monetary assets. At 31st May 2005, the Group had a net dollar asset position of £13.9m (31st May 2004 – £15.4m). This includes short-term debtors and creditors; advantage has been taken of the exemption in paragraph 6 of Financial Reporting Standard 13, "Derivatives and other financial instruments: disclosures", to exclude these amounts from other analysis required by that standard.

At 31st May 2005, the Group also held various forward contracts taken out to hedge both completed and anticipated foreign currency denominated sales and purchases, the potential gain or loss on which would not be material to the Group.

28 Acquisitions and disposals

(i) Acquisition of Charles Worthington Hair and Beauty Ltd

The Group purchased Charles Worthington Hair and Beauty Ltd and its subsidiaries on 1st July 2004 for a total consideration of £27,548,000. The total adjustments required to the book value of the assets and liabilities of the companies acquired in order to present the net assets of those companies at fair values in accordance with Group accounting policies were £29,302,000, details of which are set out below:

	Book value £000	Revaluations £000	Fair value to Group £000
Intangible fixed assets	–	29,302	**29,302**
Tangible fixed assets	425	–	**425**
Stocks	928	–	**928**
Debtors	4,161	–	**4,161**
Creditors	(4,710)	–	**(4,710)**
Taxation	(107)	–	**(107)**
Cash	235	–	**235**
Bank loans and overdrafts	(2,686)	–	**(2,686)**
Net assets acquired	**(1,754)**	**29,302**	**27,548**
Consideration			**27,548**
Consideration satisfied by:			
Cash			**22,963**
Contingent consideration			**4,585**
			27,548

The book value of the assets and liabilities have been taken from the statutory accounts of Charles Worthington Hair and Beauty Ltd and its subsidiaries at 30th June 2004.

The revaluation adjustment to intangible fixed assets reflects the fair value of the Charles Worthington brand.

Charles Worthington Hair and Beauty Ltd had an accounting period end of 30th June. The acquisition was undertaken on 1st July 2004 and hence there are no transactions required to be reported under paragraph 36 of FRS 6, "Acquisitions and mergers".

NOTES ON THE ACCOUNTS CONTINUED

28 Acquisitions and disposals continued

(ii) Disposal of PZ Cussons Investments China Ltd and subsidiaries

In February 2005, the Group disposed of PZ Cussons Investments China Ltd and its subsidiaries. Details of the net assets disposed and the loss arising on disposal are as follows:

	£000
Tangible fixed assets	4,211
Stocks	177
Debtors	201
Creditors	(832)
Cash	336
	4,093
Minority interest	(1,237)
Professional fees	496
Loss on disposal	**3,352**
Consideration	–

29 Post balance sheet event

On 28th June 2005 resolutions were duly passed at an extraordinary general meeting of the company to the following effect:

- to approve the repayment and cancellation of the 7½ per cent cumulative preference shares of £1 each in the capital of the company (“7½% preference shares”);
- to approve the repayment and cancellation of the 10 per cent cumulative preference shares of £1 each in the capital of the company (“10% preference shares”, and together with the 7½% preference shares being the “preference shares”);
- to increase the authorised share capital of the company from £13,300,000 to £14,000,000 by the creation of 7,000,000 new ordinary shares of 10p each in the capital of the company (“new ordinary shares”);
- the ‘A’ (non-voting) ordinary shares of 10p each were redesignated as ordinary shares of 10p each such that those ‘A’ (non-voting) ordinary shares were enfranchised (“enfranchisement”); and
- to implement a compensatory bonus issue of ordinary shares to the holders of those ordinary shares on the company’s register of ordinary shareholders on the date of the extraordinary general meeting on the basis of one new ordinary share for every ten ordinary shares held by each ordinary shareholder (“compensatory bonus issue”).

Both the enfranchisement and the compensatory bonus issue were conditional upon the previous listing of the ‘A’ (non-voting) ordinary shares being carried over to those shares following the enfranchisement and the admission of the new ordinary shares to the Official List of the UK Listing Authority and to trading on the London Stock Exchange Plc’s market for listed securities. This condition was satisfied on 29th June 2005 and dealings in the new ordinary shares commenced on that date. As a result of the enfranchisement and the compensatory bonus issue, it will be necessary for adjustments to be made to the subsisting rights of option holders under the PZ Cussons executive share option scheme and the PZ Cussons deferred annual share bonus scheme. The directors will, having sought any appropriate advice, notify participants accordingly.

The cancellation and repayment of the preference shares was conditional on obtaining the approval of the Court and upon the registration of the relevant court order and minute with the Registrar of Companies. The court approval took place on 20th July 2005 and the registration was effected on 25th July 2005. In obtaining the approval of the Court, the company has undertaken to create a special reserve of £7,898,001 (“special reserve”), being a sum equal to the nominal value of the issued preference shares which were cancelled and repaid and that this special reserve will not be distributed until all creditors of the company outstanding as at 25th July 2005 have been paid or secured or have consented to any such distribution.

Accordingly, following the cancellation and repayment of the preference shares, the enfranchisement and the compensatory bonus issue, the company’s authorised share capital was as at the date of this report £5,700,000 (divided into 57,000,000 ordinary shares of 10p each) and its issued share capital was £4,287,249.60 (divided into 42,872,496 ordinary shares of 10p each).

NOTES ON THE ACCOUNTS CONTINUED

30 Related party transactions

The following related party transactions were entered into during the year under the terms of a joint venture agreement with Glanbia Plc:

- The Group loaned a further £6,200,000 to Milk Ventures (UK) Ltd. At 31st May 2005 the outstanding balance receivable from Milk Ventures (UK) Ltd was £7,650,000 (31st May 2004 - balance receivable of £171,000).
- The Group sourced and then sold fixed assets and raw materials to Nutricima Ltd to the value of £14,588,000. At 31st May 2005 the amount outstanding from Nutricima Ltd was £2,281,000 (31st May 2004 – £478,000).

31 Principal Group companies

Subsidiary companies		Incorporated in:	Parent company’s interest
PZ Cussons Plc	Parent company	England	
PZ Cussons Australia Pty Ltd	Manufacturing	Australia	†100%
Sipca SA	Manufacturing	Cameroun	†99%
PZ Cussons Middle East and South Asia FZE	Distribution	Dubai	†100%
Charles Worthington Hair & Beauty Ltd	Holding company	England	*100%
Charles Worthington USA Ltd	Distribution	England	†100%
FC Ltd	Manufacturing	England	†100%
PZ Cussons (Holdings) Ltd	Holding company	England	*100%
PZ Cussons (International) Ltd	Provision of services to Group companies	England	*100%
PZ Cussons (UK) Ltd	Manufacturing	England	†100%
PZ Cussons Ghana Ltd	Holding company	Ghana	†90%
PZ Cussons Industries (Ghana) Ltd	Manufacturing	Ghana	†90%
Minerva SA	Manufacturing	Greece	*100%
PT Cussons Distributor Indonesia	Distribution	Indonesia	†100%
PT PZ Cussons Indonesia	Manufacturing	Indonesia	†100%
PZ Cussons East Africa Ltd	Manufacturing	Kenya	†100%
HPZ Ltd[1]	Manufacturing	Nigeria	†44%
Paterson Zochonis Industries Plc	Manufacturing	Nigeria	†59%
PZ Cussons Polska SA	Manufacturing	Poland	†99%
PZ Cussons (Thailand) Ltd	Manufacturing	Thailand	†100%

None of the above subsidiary companies has any class of share capital other than ordinary.

A full list of the subsidiaries will be annexed to the annual return.

[1]HPZ Ltd is 75% owned by Paterson Zochonis Industries Plc and is therefore consolidated.

Joint venture companies		Incorporated in:	Parent company’s interest
Milk Ventures (UK) Ltd	Holding company	England	†50%
Nutricima Ltd	Manufacturing	Nigeria	†50%

Milk Ventures (UK) Ltd is owned on a 50:50 basis by PZ Cussons (Holdings) Ltd and Glanbia Holdings Ltd, and owns 100% of a Nigerian subsidiary, Nutricima Ltd.

Fixed asset investments		Incorporated in:	Parent company’s interest
Norpalm Ghana Ltd	Manufacturing	Ghana	†25%

*Shares held by the parent company
† Shares held by a subsidiary

FIVE YEAR RECORD

Year to 31st May	2005 £000	2004 £000	2003 £000	2002 £000	2001 £000
Operating profit before exceptional items	**53,940**	54,094	54,691	46,794	36,859
Net investment income / interest payable	**4,647**	4,693	(3,541)	2,380	6,935
Group profit before taxation and exceptional items	**58,587**	58,787	51,150	49,174	43,794
Exceptional items	**(4,699)**	1,202	–	–	–
Profit before taxation	**53,888**	59,989	51,150	49,174	43,794
Taxation	**(18,584)**	(18,218)	(16,839)	(16,285)	(13,564)
Profit after taxation	**35,304**	41,771	34,311	32,889	30,230
Minority interests	**(6,281)**	(3,492)	(3,758)	(3,794)	(2,973)
Profit for the financial year	**29,023**	38,279	30,553	29,095	27,257
Preference dividends	**(770)**	(770)	(770)	(770)	(770)
Profit attributable to ordinary capital	**28,253**	37,509	29,783	28,325	26,487
Ordinary dividends	**(14,782)**	(12,872)	(11,559)	(10,840)	(10,858)
Profit retained	**13,471**	24,637	18,224	17,485	15,629
Net assets attributable to ordinary shareholders	**278,501**	259,646	243,362	253,220	253,825
Per ordinary share:					
Basic earnings – after exceptional items	**70.15p**	93.35p	71.90p	65.50p	56.32p
Basic earnings – before exceptional items	**83.35p**	85.87p	71.90p	65.50p	56.32p
Dividend	**35.25p**	32.00p	29.00p	26.25p	23.75p
Times cover – after exceptional items	**2.0**	2.9	2.5	2.5	2.4
Times cover – before exceptional items	**2.4**	2.7	2.5	2.5	2.4
Net assets	**684p**	637p	598p	590p	555p

Note: References to ordinary shares include 'A' (non-voting) ordinary shares

NOTICE OF MEETING

Notice is hereby given that the annual general meeting of the members of PZ Cussons Plc will be held at The Midland Hotel, Peter Street, Manchester on Monday the 26th day of September 2005, at 12 noon, for the following purposes:

1 To receive the audited financial statements for the year ended 31st May 2005 and the reports of the directors and the auditors thereon

2 To approve the report on directors' remuneration

3 To declare a final dividend for the year ended 31st May 2005 of 26.60p per share

4 To re-elect C N Green (a director who is retiring by rotation under the Articles of Association) as a director of the company

5 To re-elect A G Calder (a director who is retiring by rotation under the Articles of Association) as a director of the company

6 To re-elect C Nicoloulias (a director who is retiring by rotation under the Articles of Association) as a director of the company

7 To re-elect J D M Smith (a director who is retiring by rotation under the Articles of Association) as a director of the company

8 To elect J Pantelireis (a director who was appointed by the Board in June 2005) as a director of the company

9 To re-appoint Deloitte & Touche LLP as auditors and to authorise the directors to fix their remuneration

As special business of the meeting to consider and, if thought fit, to pass the following resolutions which will be proposed as ordinary or special resolutions as indicated below:

10 As an ordinary resolution:

That the directors be and they are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the company to allot relevant securities (as defined by section 80(2) of the Act) up to an aggregate nominal amount of £1,412,750. This authority shall, unless it is (prior to its expiry) duly revoked or varied or renewed, expire on the earlier of 25th December 2006 and the conclusion of the annual general meeting of the company to be held in 2006 provided that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

11 As a special resolution:

That the directors be and they are hereby empowered pursuant to section 95(1) of the Companies Act 1985 (the "Act") to allot equity securities (as defined in sections 94(2) and 94(3A) of the Act) pursuant to the authority given to them for the purposes of section 80 of the Act by resolution 10 in the Notice of Annual General Meeting dated 25th August 2005 (of which this resolution forms a part) as if section 89(1) of the Act did not apply to any such allotment. This authority shall, unless it is (prior to its expiry) duly revoked or varied or renewed, expire on the earlier of 25th December 2006 and the conclusion of the annual general meeting of the company to be held in 2006 and shall be limited:

(i) to the allotment of equity securities in connection with a rights issue or other issue in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all holders of ordinary shares are proportionate (as nearly as practicable) to the respective numbers of ordinary shares held or deemed to be held by them, subject only to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange or any other matter; and

(ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities for cash up to an aggregate nominal value of £214,362.

12 As a special resolution:

That the company be and it is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of its own ordinary shares on such terms, and in such manner as the directors may, from time to time, determine provided that:

(i) the maximum number of ordinary shares which may be purchased pursuant to this authority is 4,287,245;

(ii) 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 such share (derived from the London Stock Exchange Daily Official List) for the 5 business days immediately preceding the date of purchase;

(iii) the minimum price which may be paid for an ordinary share is 10p per share;

NOTICE OF MEETING CONTINUED

(iv) unless revoked, varied or renewed prior to such date, this authority shall expire on the earlier of 25th December 2006 and the conclusion of the annual general meeting of the company to be held in 2006 provided that the company may make a contract to purchase ordinary shares before the expiry of this authority which will or may be executed wholly or partly after the expiry of such authority and may purchase ordinary shares in pursuance of any such contract; and

(v) such authorisation is in substitution for and to the exclusion of any existing authority subsisting at the date of this resolution (save to the extent that the same may already have been exercised).

Dated this twenty fifth day of August 2005
By order of the board of directors

B H LEIGH
Secretary

Notes

1 A member of the company entitled to attend and vote at this meeting is also entitled to appoint a proxy (whether a member or not) to attend and, on a poll, vote instead of him. A reply-paid proxy card is enclosed. In order to be valid, proxies must be received at the offices of the company Registrar not later than 48 hours before the time appointed for the meeting.

2 The form of proxy may be completed, signed and returned to the Registrar or submitted via the internet. If you lodge your proxy form via the internet it is not necessary also to return this paper form. If you would like to submit your proxy vote online, you can do so by accessing the Registrar's website **www-uk.computershare.com/proxy** and then selecting PZ Cussons Plc from the menu. You will require your unique PIN and Shareholder Reference Number which are printed on the front of the proxy card to log in (the PIN will expire at the end of the voting period).

3 CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting by utilising the procedures described in the CREST Manual. CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID 3RA50) by the latest time(s) for receipt of proxy appointments specified in Note 1 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

4 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the company specifies that only holders of ordinary shares registered in the register of members of the company as at 6.00 pm on 24th September 2005 shall be entitled to attend and vote at the annual general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 6.00 pm on 24th September 2005 shall be disregarded in determining the right of any person to attend and vote at the meeting.

Copies of the service contracts of the executive directors and of the letters of appointment from the company to its non-executive directors will be available for inspection at the registered office of the company during usual business hours on any weekday from the date of this notice until the date of the meeting and, together with the register of directors' interests, will be available for inspection on the date and at the place of the meeting from 11.45 am until the conclusion of the meeting.

Registered office
PZ Cussons House
Bird Hall Lane
Stockport SK3 0XN

Registered number
Company registered number 19457

Registrars
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

Company secretary
B H Leigh

Information about PZ Cussons Plc and a full copy of the annual report and accounts can be found on our website **www.pzcussons.com**