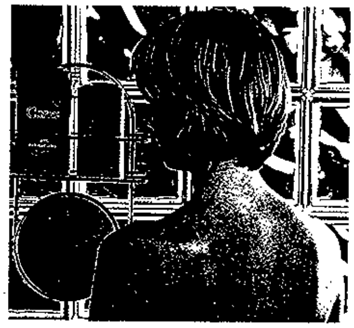
PATERSON ZOCHONIS plc

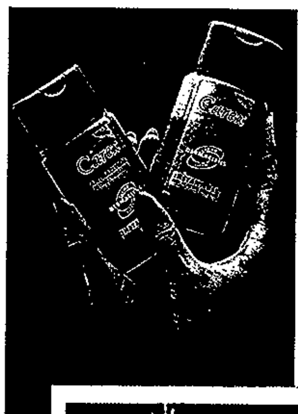
ANNUAL REPORT & ACCOUNTS 1998


NEW
IMPERIAL LEATHER
FOAMBURST GEL
FITNESS
RADIANCE
VITALITY
DELIGHT

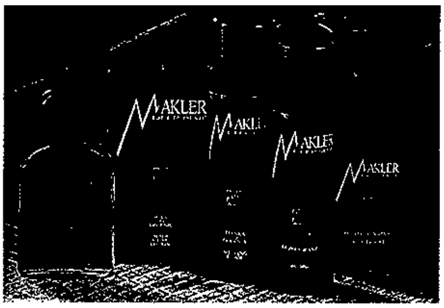

IMPERIAL LEATHER
MILD FOR SENSITIVE SKIN
IMPERIAL LEATHER
ORIGINAL 2 family size
IMPERIAL LEATHER
ORIGINAL 2 toilet size




Carex
DERMACLENS


Carex


Carex
HAND LOTION



PATERSON ZOCHONIS plc

19057

CONTENTS

Chairman
A. J. GREEN

Chief executive
C. N. GREEN

A. G. CALDER, F.C.A.
P. GIOURAS
D. C. GODWIN*
T. F. G. HARRISON, F.C.A.
K. HERBERT
D. I. HUNTER, M.B.E.*
J. R. L. LEE, F.C.A.*
W. S. ROGERS*
P. J. SMYTH
J. SPYRIDOULIAS
*non-executive

Secretary
T. F. G. HARRISON, F.C.A.

Registered office
Cussons House
Bird Hall Lane
Stockport SK3 0XN

Registered number
Company registered number 19457

Registrars
Computershare Services Plc
PO Box 82
Caxton House
Redcliffe Way
Bristol BS99 7NH

CHAIRMAN'S STATEMENT

The group results are reviewed in detail in the directors' report. We have achieved an 8% profit increase over last year despite the continuing strength of sterling and the collapse of certain South East Asian currencies. This has been achieved by the considerable efforts of all our staff and I would like to thank them for their contribution.

During the year we have continued to invest substantially in both our brands and manufacturing capacity especially in our new markets. This, along with the continuing strength of the group's balance sheet, has put us in a good position to face the challenges of the new millennium with confidence.

At the end of May 1998, Alan Whittaker, the group's finance director, retired. In a career with PZ of almost 26 years, he has skilfully husbanded the company's financial resources during a time when the demands on capital for new factories and outside acquisitions were at unprecedented levels. He was appointed finance director in 1978 and brought to that post a quite remarkable degree of financial analysis, business acumen and commitment. We are indeed indebted to him for the major part he has played in building up the sound financial position that the group finds itself in today.

On behalf of his colleagues, the staff and shareholders I wish both Alan and his wife Marie a long and happy retirement.

At the end of December, David Hunter will be retiring as a non-executive director. During his five year term of office David's sound advice has been greatly appreciated particularly in the field of investments and we wish him every happiness for the future.

I am delighted to advise three new appointments to the board.

Graham Calder was appointed an executive director on 1st April 1998 and has now succeeded Alan Whittaker as finance director. Graham joined us in April 1996 from Deloitte & Touche where he had been the partner in charge of the Manchester office for some years.

Philip Smyth was appointed an executive director on 1st June 1998, taking over responsibility for the group's operations in Greece, Poland, Eastern Europe and Russia. He first joined the group in 1978 and over the years has held a number of senior positions in our subsidiaries both in Europe and Australia.

David Godwin joined the board as a non-executive director on 1st October 1998. Mr. Godwin is a qualified mechanical engineer and recently retired as a senior corporate partner of Cazenove & Co., the London stockbrokers, and has been known to the company for many years.

ANTHONY GREEN
Chairman

The directors submit their report and the audited financial statements of the group for the year ended 31st May 1998.

Review of the business

Profits before taxation were 8% higher than those for the previous year, arising largely from improvements in operating profits. Earnings per share increased from 43.09p to 47.16p.

The continuing strength of sterling and the impact of the collapse of certain currencies, particularly in South East Asia, have resulted in currency translation losses on overseas net assets of £19m which have been dealt with through reserves. The translation effect on trading has been to reduce group turnover by £36m and pre-tax profits by £2m.

The board is recommending a final dividend of 12.65p per share which, together with the interim dividend of 5.85p gives a total distribution of 18.5p, an increase of 7.5% over the total of 17.2p last year with cover maintained at 2.5 times.

Operations in the UK have remained profitable with the continuing successful development of our key brands. The new soap process plant in Nottingham has been largely completed and should provide production capacity to meet demand for the foreseeable future.

Poland has achieved significant increases in sales and profit with the new detergent plant being fully operational. Demand for the company's products also grew in the Ukraine and Russia.

Turnover and profits in Australia, Indonesia and Thailand have increased in local currencies, however the impact of far eastern devaluations has resulted in reductions when translated into sterling.

The new soap factory in China has recently been completed. Despite encouraging sales growth of 45% in the year, losses continue to be incurred as costs increase in expanding distribution and in giving necessary advertising and promotional support to launching new products.

Trade in Greece has shown improved profitability during the year despite the disruption caused by the fire in April 1997 at the new factory in Schimatari. The insurance claim has now been satisfactorily settled and it is expected that the factory will be fully operational within this financial year.

In Nigeria, business has remained depressed with the government maintaining a tight monetary policy. Inflation however has reduced significantly and the hyper-inflation deduction made to previous years' currency profits was no longer required.

In the current year operating profits from trading activities are expected to show some improvement. However the overall result for the year will be affected by the economic and political problems in Eastern Europe and the Far East and the impact of the major downturn in the world's stock markets.

Results and dividends	**£000**	**£000**
Profit for the financial year		23,144
Dividends:		
Preference: as shown on page 21 note 10		770
		22,374
Ordinary:		
Interim at 5.85p (1997 – 5.5p)	2,776	
Proposed final at 12.65p (1997 – 11.7p)	6,001	
		8,777
Profit retained		£13,597

Principal activities

The principal activities of the group and its associated companies are as follows:

United Kingdom:
The manufacture of soaps, toiletries and household products for home and export markets.
The supply of general merchandise and the provision of industrial supplies and services principally to group and associated companies.

Greece:
The processing of edible oils and fats.

Poland:
The manufacture of soaps, detergents and toiletries.

Africa:
The manufacture of soaps, detergents, toiletries, cosmetics, pharmaceuticals, confectionery, packaging materials, refrigerators and air conditioners.
General merchanting.

Australia:
The manufacture of soaps, detergents and toiletries.

China:
The manufacture of soaps and toiletries.

India:
The distribution of soaps and toiletries.

Indonesia and Thailand:
The manufacture of soaps and toiletries.

Further details of these and other group activities are given on pages 31 to 33.

Registrars

The acquisition by Computershare Ltd of the registration business of the Royal Bank of Scotland took place on 12th March 1998, from which time the company's registrar became Computershare Services Plc. Computershare Ltd is a listed Australian company specialising in securities information technology, including the provision of registration systems.

Directors

The present directors of the company are shown on page 2.

Mr. A. Whittaker retired from the board on 31st May 1998. Mr. A. G. Calder was appointed an executive director on 1st April 1998, Mr. P. J. Smyth was appointed an executive director on 1st June 1998 and Mr. D. C. Godwin was appointed a non-executive director on 1st October 1998.

The directors retiring by rotation are Mr. K. Herbert, Mr. J. R. L. Lee and Mr. J. Spyridoulias who, being eligible, offer themselves for re-election.

Non-executive directors

Mr. D. I. Hunter
Former chairman of Henry Cooke Group plc, Mr. Hunter was appointed to the board of Paterson Zochonis plc in 1994.

Mr. J. R. L. Lee
Formerly a Government Minister, Mr. Lee is currently chairman of both the Christie Hospital NHS Trust and the Manchester Museum of Science & Industry. Appointed to the board of Paterson Zochonis plc in 1990.

Mr. W. S. Rogers
Was for many years a partner of London solicitors, Theodore Goddard. Appointed to the board of Paterson Zochonis plc on 1st January 1997.

Mr. D. C. Godwin
A qualified mechanical engineer and a recently retired senior corporate partner of Cazenove & Co., the London stockbrokers. Appointed to the board of Paterson Zochonis plc on 1st October 1998.

Directors' interests

The directors' interests in the share capital of the company at 31st May 1998 (1st June 1997 or date of appointment if later) were as follows:

Beneficial	Ordinary shares		'A' ordinary shares		7½% cumulative preference shares		10% cumulative preference shares	
A. J. Green	3,564,570	3,564,570	2,301,744	2,301,744	3,871	3,871	100	100
C. N. Green	3,565,352	3,565,352	2,289,243	2,289,243	3,870	3,870	9,300	9,300
A. G. Calder	6,500	6,500	—	—	—	—	—	—
P. Giouras	15,000	15,000	9,801	9,801	—	—	—	—
T. F. G. Harrison	955	955	90	90	—	—	74	74
K. Herbert	1,000	1,000	—	—	—	—	—	—
D. I. Hunter	1,500	1,500	—	—	—	—	—	—
J. R. L. Lee	24,557	24,500	8,500	8,500	—	—	—	—
W. S. Rogers	1,000	1,000	—	—	—	—	—	—
J. Spyridoulias	1,000	—	—	—	—	—	100	100
A. Whittaker	45	45	8,436	8,436	—	—	100	100
Sub-total	7,181,479	7,180,422	4,617,814	4,617,814	7,741	7,741	9,674	9,674
Less duplication (see note)	3,461,172	3,461,172	2,251,078	2,251,078	3,000	3,000	—	—
Total	3,720,307	3,719,250	2,366,736	2,366,736	4,741	4,741	9,674	9,674
Non-beneficial								
A. J. Green	333,215	333,215	326,072	326,072	334	334	—	—
C. N. Green	—	—	15,000	15,000	—	—	—	—
P. Giouras	42,350	42,350	20,316	20,316	—	—	—	—
J. R. L. Lee	1,050	1,050	—	—	—	—	105	105
A. Whittaker	5,844,982	5,792,982	766,588	714,588	—	—	—	—
Sub-total	6,221,597	6,169,597	1,127,976	1,075,976	334	334	105	105
Less duplication (see note)	42,350	42,350	35,316	35,316	—	—	—	—
Total	6,179,247	6,127,247	1,092,660	1,040,660	334	334	105	105

The directors' interests at 15th October 1998 were unchanged, other than the shareholdings of the directors who were appointed after 31st May 1998 which are shown below.

Beneficial	Ordinary shares	'A' ordinary shares	7½% cumulative preference shares	10% cumulative preference shares
D. C. Godwin	1,000	500	—	—
P. J. Smyth	1,000	—	—	—

Notes:

1. Certain interests of directors previously disclosed as non-beneficial holdings are now disclosed as beneficial holdings; this arises as a result of a review of the deeds of the underlying trusts which own the shares. The directors affected are Mr. A. J. Green and Mr. C. N. Green whose interests relate only to an entitlement to part of the income from such shares. The 1997 comparative figures have been revised to reflect this change.
2. Certain of the directors' beneficial and non-beneficial interests appear more than once where such directors are either co-beneficiaries or co-trustees. The totals show the total interests of the directors excluding this duplication, but include duplication between beneficial and non-beneficial interests of 1,461,882 ordinary shares and 384,643 'A' ordinary shares.

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 voting shares of the company held at 15th October 1998:

	Number of voting shares	%
J. B. Zochonis	2,682,845	10.97
British Telecom Pension Scheme	1,076,846	4.41
Paterson Zochonis Provident Trust Ltd	910,395	3.72

Special business at the annual general meeting

Shareholders' approval is being sought at the annual general meeting to renew the general authority for the company to make market purchases of its own ordinary and 'A' (non-voting) ordinary shares for cancellation.

The renewed authority, in respect of approximately 10% of the company's issued ordinary and 'A' (non-voting) ordinary share capital, would run until the conclusion of the 1999 annual general meeting. If granted, the authority would only be exercised if an improvement in earnings per share was expected to result.

Political and charitable contributions

Charitable contributions in the United Kingdom during the year amounted to £50,000 (1997 – £50,000). No political contributions were made (1997 – Nil).

Research and development

The group maintains inhouse facilities for research and development in the United Kingdom, Poland, 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.

Year 2000 compliance

A group-wide programme, co-ordinated by a central steering committee, has been implemented to ensure that all computer systems and microprocessor reliant equipment are Year 2000 compliant. Three categories of risk have been identified; financial and business systems, manufacturing equipment and supplier/third party impact.

From the early 1990s, Paterson Zochonis embarked on a programme to introduce up-to-date computer hardware and software into the business. This has given the group a significant advantage in terms of the Year 2000 task in that no part of the group is reliant on old bespoke systems to carry out its business. In addition, during recent years, all operating units have been encouraged to move to a group standard integrated business system. This system is an "off the shelf" package and is Year 2000 compliant. Work to modify other financial and business systems is at an advanced stage. Expenditure, not material to the group, is charged to revenue as it is incurred.

Similarly, the majority of computer controlled manufacturing equipment has been installed in recent years. Total expenditure on Year 2000 amendments to manufacturing equipment is not expected to be material to the group.

Finally, key suppliers and other third parties have been contacted to seek reassurance regarding any potential impact from non-compliance of their systems with Year 2000. If any areas of concern are highlighted, members of the steering committee will work with the third party to minimise disruption of group operations.

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 opportunity 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 have signified their willingness to continue in office and a resolution for their re-appointment will be proposed at the annual general meeting.

Corporate governance

The company has complied throughout the year with the requirements of the Code of Best Practice published by the Cadbury Committee on the Financial Aspects of Corporate Governance.

Internal financial control

The directors are responsible for the group's system of internal financial control. Key procedures established throughout the group and designed to provide effective control include:

- A control environment based on well defined organisational structures, levels of authority and segregation of duties.
- Annual budgets and three year plans for all operating units agreed each year with the directors.
- Reporting and monitoring of performance against such budgets and plans for all operating units reviewed by the executive directors on a monthly basis.
- A system of self-certification by chief executives of each operating unit of compliance with group control procedures backed up by inspection reviews of major units by group finance department, reporting to the audit committee.

Individually as appropriate and through the audit committee the directors have reviewed the effectiveness of the system of internal financial control in operation during the financial year. It must be recognised that such a system can provide only reasonable and not absolute assurance against material misstatement or loss.

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.

Directors' responsibilities in relation to financial statements

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.

By order of the board of directors
T. F. G. HARRISON – Secretary
20th October 1998

The committee

The members of the committee during the year were Messrs. J. R. L. Lee, D. I. Hunter and W. S. Rogers. 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 company has complied throughout the accounting period with Section A of the Best Practice Provisions as annexed to the listing rules of the Stock Exchange. The committee confirms that in framing remuneration policy it has given full consideration to Section B of the Provisions.

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.

The elements of the remuneration package are salary, benefits in kind and pension entitlements. Salaries are reviewed annually by the 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. Benefits in kind are subject to periodic review and include health insurance and car benefits.

Full details of directors' remuneration are given in note 4 to the accounts.

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 1998 are members of the scheme. Benefits in respect of each executive director are given in the table below:

	Increase in accrued pension during the year £	Total accrued pension as at 31st May 1998 £	Transfer value of the increase in accrued pension during the year £
A. G. Calder *	1,087	8,275	13,174
A. J. Green	5,524	69,104	54,185
C. N. Green	6,058	70,744	53,750
P. Giouras	5,444	114,166	80,034
T. F. G. Harrison	8,646	75,131	126,103
K. Herbert	6,198	63,890	64,684
J. Spyridoulias	7,473	63,111	112,058
A. Whittaker	7,564	100,141	100,021

*The figures for Mr. Calder cover only the period 1st April 1998 to 31st May 1998.

Notes:
1. The pension entitlements shown are those which would be paid annually on retirement based on service to the end of the year.
2. The increase in accrued pension during the year is net of any increase for inflation. In line with other employees of the company, the normal retirement age for most of the directors was changed from 65 to 62 on 1st June 1997, and the increases in accrued pensions quoted above for those directors have been calculated using a normal retirement age of 62 throughout for the whole period under review.
3. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less directors contributions.
4. The directors have the option to pay additional voluntary contributions. Neither the contributions nor the resulting benefits are included in the above table.
5. 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

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 remuneration committee

W. S. ROGERS

We have audited the financial statements on pages 12 to 33 which have been prepared under the accounting policies set out on pages 16 and 17.

Respective responsibilities of directors and auditors

As described on page 8 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31st May 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche.

Deloitte & Touche.

DELOITTE & TOUCHE

Chartered Accountants
and Registered Auditors.
201 Deansgate
Manchester M60 2AT

20th October 1998

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year to 31st May 1998

	Notes	1998		1997	
		£000	£000	£000	£000
Turnover	1		355,946		350,348
Cost of sales			225,298		230,614
Gross profit			130,648		119,734
Selling & distribution expenses		73,319		63,086	
Administrative expenses		37,159		38,479	
			110,478		101,565
Operating profit	2		20,170		18,169
Share of profits of associated companies		5,447		5,322	
Investment income	5	12,559		11,466	
Interest payable	6	(5,466)		(4,771)	
			12,540		12,017
Profit on ordinary activities before taxation	1		32,710		30,186
Taxation on profit on ordinary activities	7		10,572		9,565
Profit on ordinary activities after taxation			22,138		20,621
Equity minority interests			(1,006)		(594)
Profit for the financial year	8, 9		23,144		21,215
Preference dividends	10		770		770
Profit attributable to ordinary capital			22,374		20,445
Ordinary dividends	10		8,777		8,161
Profit for the financial year retained	25		£13,597		£12,284
Earnings per ordinary share	11		47.16p		43.09p

The results for both years arise from continuing operations

RECOGNISED GAINS AND LOSSES
MOVEMENTS IN SHAREHOLDERS' FUNDS

Year to 31st May 1998

	1998 £000	1997 £000
Statement of total recognised gains and losses		
Profit for the financial year	23,144	21,215
Currency retranslation	(19,299)	(19,102)
Surplus on revaluation	1,794	—
Total recognised gains and losses for the year	£5,639	£2,113

Reconciliation of movement in shareholders' funds

Total recognised gains and losses for the year	5,639	2,113
Dividends	(9,547)	(8,931)
Hyper-inflation adjustment	—	1,300
Goodwill arising on acquisition of interests in subsidiaries and associates	(1,386)	(1,394)
Net decrease in shareholders' funds	(5,294)	(6,912)
Opening shareholders' funds	221,814	228,726
Closing shareholders' funds	£216,520	£221,814

Note of historical cost profits and losses

Reported profit on ordinary activities before taxation	32,710	30,186
Adjustment of depreciation to historical cost basis	282	172
Historical cost profit on ordinary activities before taxation	£32,992	£30,358
Historical cost profit for the year retained after taxation, minority interests and dividends	£13,879	£12,456

BALANCE SHEETS

31st May 1998

	Notes	The group 1998 £000	The group 1997 £000	Parent company 1998 £000	Parent company 1997 £000
Fixed assets					
Tangible assets	12	125,596	119,586	—	—
Investments:					
Subsidiary companies	13	—	—	75,036	73,077
Associated companies	14	26,864	23,533	7,036	5,440
Other investments	15	61	108	61	108
		152,521	143,227	82,133	78,625
Current assets					
Stocks	16	55,625	58,332	—	—
Debtors	17	62,673	55,076	51,589	45,003
Investments	18	107,082	106,878	59,922	26,273
Cash at bank and in hand		6,166	8,020	—	—
		231,546	228,306	111,511	71,276
Creditors (due within one year)					
Bank loans and overdrafts		(53,793)	(41,908)	(31,257)	(19,418)
Others	19	(89,268)	(83,485)	(31,332)	(15,653)
Net current assets		88,485	102,913	48,922	36,205
Total assets less current liabilities		241,006	246,140	131,055	114,830
Creditors (due after one year)					
Bank loans	20	(4,962)	(4,640)	—	—
Others	20	(9,465)	(6,550)	—	—
Provisions for liabilities and charges	21	(4,412)	(5,428)	(1,875)	(1,875)
Net assets	1	£222,167	£229,522	£129,180	£112,955
Capital and reserves					
Equity ordinary share capital	24	4,744	4,744	4,744	4,744
Non-equity preference share capital	24	7,898	7,898	7,898	7,898
Total called up share capital	24	12,642	12,642	12,642	12,642
Reserves attributable to equity interests:					
Revaluation reserve	25	26,772	27,698	—	—
Profit and loss account	25	177,106	181,474	116,538	100,313
Total shareholders' funds		216,520	221,814	129,180	112,955
Equity minority interests		5,647	7,708	—	—
		£222,167	£229,522	£129,180	£112,955

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

A. J. GREEN

C. N. GREEN

20th October 1998

GROUP CASH FLOW STATEMENT

Year to 31st May 1998

	Notes	1998 £000	1997 £000
Cash flow from operating activities	(i)	23,834	13,412
Returns on investments and servicing of finance	(ii)	8,713	5,892
Taxation		(9,574)	(6,311)
Capital expenditure and financial investment	(ii)	(27,602)	(38,423)
Acquisitions and disposals	(ii)	(2,054)	(481)
Equity dividends paid		(8,327)	(8,944)
Cash outflow before use of liquid resources and financing		(15,010)	(34,855)
Management of liquid resources	(ii)	(547)	36,875
Financing	(ii)	17,218	3,131
Increase in cash in the period		£1,661	£5,151

Reconciliation of net cash flow to movement in net funds	(iii)		
Increase in cash in the period		1,661	5,151
Cash inflow from financing		(17,218)	(3,131)
Cash outflow/(inflow) from management of liquid resources		547	(36,875)
Change in net funds resulting from cash flows		(15,010)	(34,855)
Currency retranslation		1,153	2,081
Loans in subsidiary prior to merger with associate		—	117
Movement in net funds in the period		(13,857)	(32,657)
Opening net funds		68,350	101,007
Closing net funds		£54,493	£68,350

The notes to the cash flow statement are given in note 26

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.

Prior year figures include an adjustment made in accordance with UITF abstract 9 "Accounting for operations in hyper-inflationary economies". No such adjustment is required for the period to 31st May 1998.

Consolidation

(a) The consolidated accounts incorporate the accounts of Paterson Zochonis 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 or on sales to associated companies 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 Paterson Zochonis 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 wherever possible are made up to 31st May annually.

(e) Goodwill, including negative goodwill and that arising on consolidation, is set off against or added to reserves in the year of acquisition.

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

Associated companies

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

Exchange rates

Exchange rates used to translate overseas profits and 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, associated companies and branches is treated as a movement in reserves.

Turnover

Turnover represents the amount derived from sales of goods and services (including interest receivable on sales on extended credit and income from the provision of technical services and licensing agreements) to external customers of the group and to associated companies, to the extent that the goods have been sold to third parties.

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.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation.

In the case of leasehold properties, leases which at the balance sheet date have more than 50 years to run, inclusive of options exercisable by the group, 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, inclusive of options exercisable by the group, 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.

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.

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.

Taxation and deferred taxation

Taxation is computed at current rates on the profit for the year. No provision is made for any additional taxation which may arise on the undistributed reserves of overseas subsidiaries and associated companies, unless it is foreseen that they are likely to be distributed.

Deferred taxation is provided except where there is reasonable probability that such taxation will not become payable in the foreseeable future. Deferred taxation takes account of:

(a) the estimated taxation liability which would arise were the tangible fixed assets to be realised at their net book value at the balance sheet date

(b) taxation on inter-company profits on stock eliminated on consolidation and other timing differences

(c) advance corporation tax deductible from future United Kingdom taxation.

1 Segmental reporting

	Third party turnover 1998 £000	Third party turnover 1997 £000	Profit before taxation 1998 £000	Profit before taxation 1997 £000	Net assets 1998 £000	Net assets 1997 £000
Classes of business						
Personal & household						
Group companies	312,554	293,452	16,693	16,685	128,783	124,641
Share of associated companies			4,438	4,265	21,890	18,860
			21,131	20,950	150,673	143,501
Food and others						
Group companies	43,392	56,896	3,477	1,484	31,740	35,179
Share of associated companies			1,009	1,057	4,974	4,673
			4,486	2,541	36,714	39,852
	£355,946	£350,348	25,617	23,491	187,387	183,353
Investment income/investments			12,559	11,466	107,143	106,986
Interest payable/overdrafts & loans			(5,466)	(4,771)	(58,755)	(46,548)
			£32,710	£30,186	235,775	243,791
Tax and dividends					(13,608)	(14,269)
					£222,167	£229,522
Geographical areas – by origin						
Group companies						
United Kingdom	144,494	147,497	11,021	11,124	34,633	25,677
Western Europe	33,800	40,057	3,175	37	33,312	37,807
Eastern Europe	82,189	63,608	3,554	1,860	31,681	27,842
Africa	24,408	23,956	3,607	3,381	12,592	13,087
Australia	35,886	40,695	1,583	1,925	20,764	23,724
Far East and other	35,169	34,535	(2,770)	(158)	27,541	31,683
	355,946	350,348	20,170	18,169	160,523	159,820
Share of associated companies						
Nigeria			5,447	5,322	26,864	23,533
	£355,946	£350,348	25,617	23,491	187,387	183,353
Investment income/investments			12,559	11,466	107,143	106,986
Interest payable/overdrafts & loans			(5,466)	(4,771)	(58,755)	(46,548)
			£32,710	£30,186	235,775	243,791
Tax and dividends					(13,608)	(14,269)
					£222,167	£229,522

Note: Third party turnover includes £56,499,000 (1997 – £58,072,000) sales to associated companies.

1 Segmental reporting continued

	Third party turnover		Inter-segment turnover		Total turnover	
	1998 £000	1997 £000	1998 £000	1997 £000	1998 £000	1997 £000
Turnover – by origin						
United Kingdom	144,494	147,497	36,146	55,770	180,640	203,267
Western Europe	33,800	40,057	2,537	4,250	36,337	44,307
Eastern Europe	82,189	63,608	124	167	82,313	63,775
Africa	24,408	23,956	94	189	24,502	24,145
Australia	35,886	40,695	79	21	35,965	40,716
Far East and other	35,169	34,535	144	463	35,313	34,998
	£355,946	£350,348	£39,124	£60,860	£395,070	£411,208

	Third party turnover	
	1998 £000	1997 £000
Turnover – by destination		
United Kingdom	77,554	75,067
Western Europe	37,938	41,781
Eastern Europe	82,537	67,247
Nigeria	56,499	58,072
Other Africa	24,656	24,251
Australia	35,890	40,928
Far East and other	40,872	43,002
	£355,946	£350,348

2 Operating profit

	1998 £000	1997 £000
Is after charging/(crediting):		
Depreciation	10,000	9,775
Profit on disposal of tangible fixed assets	(1,074)	(289)
Profit on disposal of fixed asset investments	(72)	—
Research and development	4,033	3,892
Auditors' remuneration – audit fees	386	416
– other services	90	58

3 Staff numbers and costs

	Number	Number
The average number employed by the group, including directors, within each category was:		
Production	3,447	3,274
Selling and distribution	1,385	1,189
Administration	982	1,056
	5,814	5,519

The costs incurred in respect of the above were:	£000	£000
Wages and salaries	38,761	39,282
Social security and other costs	6,404	6,051
Pension costs	1,306	1,466
	£46,471	£46,799

Further information on pension costs is given in note 23

4 Directors' emoluments

The following table shows remuneration of individual directors for the year ended 31st May 1998.

Directors' emoluments contain no performance-related elements. Taxable benefits include health insurance and car benefits.

	Salary/ fees £	Taxable benefits £	1998 Total £	1997 Total £
Executive directors				
A. G. Calder (from 1st April 1998)	25,000	1,872	26,872	—
P. Giouras	175,248	19,703	194,951	175,074
A. J. Green (chairman)	158,385	21,676	180,061	167,380
C. N. Green	177,212	19,591	196,803	182,669
T. F. G. Harrison	120,849	16,495	137,344	122,471
K. Herbert	159,443	11,681	171,124	157,859
J. Spyridoulias	120,774	7,783	128,557	113,983
A. Whittaker	170,046	16,460	186,506	167,699
Non-executive directors				
D. I. Hunter	15,000	—	15,000	15,000
J. R. L. Lee	15,000	—	15,000	15,000
W. S. Rogers (from 1st January 1997)	15,000	—	15,000	6,250
S. W. Wiltshire	—	—	—	15,000
	£1,151,957	£115,261	£1,267,218	£1,138,385
Payments to former directors for continuing services	£65,000	£23,966	£88,966	£89,986

Details of directors' pension benefits are given in the report of the remuneration committee on pages 9 and 10.

5 Investment income

	1998 £000	1997 £000
Current asset investment income:		
Listed investments	10,778	7,665
Unlisted investments	90	2,289
Deposit interest	2,345	4,034
Fixed asset investment income:		
Listed investments	264	222
Unlisted investments	57	—
Provisions increased	(975)	(2,744)
	£12,559	£11,466

Dividends from listed associated companies of £1,343,000 (1997 – £1,303,000) are excluded. The group share of profits of such companies is included in these accounts.

6 Interest payable

Bank loans and overdrafts	£5,466	£4,771

7 Taxation on profit on ordinary activities

	1998 £000	1997 £000
United Kingdom corporation tax at 31% (1997 – 32.67%)	7,085	6,557
Less: Double taxation relief	1,553	1,981
	5,532	4,576
Overseas taxation	4,638	3,479
Deferred taxation	(1,131)	(252)
	9,039	7,803
Prior year taxation	94	59
Prior year deferred taxation	(139)	14
	8,994	7,876
Associated companies taxation	1,578	1,689
	£10,572	£9,565

8 Profit for the financial year

The profits of the listed associated company and its subsidiaries in Nigeria take account of provisions for claims by group companies for interest, technical fees and royalties which are unpaid.

Due to the operation of exchange control restrictions and the degree of uncertainty relating to the items concerned the directors consider that they should not be recognised in the group's operating profit until received. By virtue of the provisions of Statement of Standard Accounting Practice No. 1 only published financial information may be disclosed concerning associated companies which are listed on a recognised stock exchange. Should the full amount provided to date prove ultimately not to be payable, the estimated net effect on the consolidated accounts in the year when that outcome was established would be to increase the group profit for the financial year by approximately £2,241,000 (1997 – £3,926,000).

9 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 £25,772,000 (1997 – £17,859,000).

10 Dividends

	1998 £000	1997 £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:		
Interim at 5.85p per share (1997 – 5.5p)	2,776	2,610
Proposed final at 12.65p per share payable 8th December 1998 (1997 – 11.7p)	6,001	5,551
	£8,777	£8,161
Total dividends	£9,547	£8,931

11 Earnings per ordinary share

The calculation is based on £22,374,000 (1997 – £20,445,000) being the profit attributable to ordinary capital and on 47,444,568 ordinary and 'A' ordinary shares in issue throughout the two years.

12 Tangible fixed assets

The group	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, vehicles £000	Assets in course of construction £000	Total £000
Cost or valuation					
At 31st May 1997	55,439	72,105	17,758	29,431	174,733
Currency retranslation	(7,300)	(8,979)	(1,801)	(3,012)	(21,092)
Additions	3,664	3,870	3,194	18,709	29,437
Disposals	(782)	(957)	(844)	(39)	(2,622)
Surplus on revaluation	899	—	—	—	899
Reclassifications	1,622	5,181	705	(7,508)	—
At 31st May 1998	£53,542	£71,220	£19,012	£37,581	£181,355
Depreciation					
At 31st May 1997	3,429	40,897	10,821	—	55,147
Currency retranslation	(459)	(5,042)	(1,012)	—	(6,513)
Charge for the year	1,251	5,886	2,863	—	10,000
Disposals	(454)	(722)	(804)	—	(1,980)
Written back on revaluation	(895)	—	—	—	(895)
At 31st May 1998	£2,872	£41,019	£11,868	—	£55,759
Net book values					
At 31st May 1998	£50,670	£30,201	£7,144	£37,581	£125,596
At 31st May 1997	£52,010	£31,208	£6,937	£29,431	£119,586

	The group 1998 £000	The group 1997 £000
Land and buildings		
Cost or valuation		
Freehold land	14,698	15,870
Freehold buildings	20,771	22,512
Long leasehold	15,096	11,192
Short leasehold	2,977	5,865
	£53,542	£55,439
Accumulated depreciation		
Freehold buildings	2,027	2,625
Long leasehold	523	366
Short leasehold	322	438
	£2,872	£3,429
Land and buildings at cost or valuation are stated:		
At open market valuation 1989	859	1,316
At open market valuation 1994	17,746	22,260
At open market valuation 1995	—	9,567
At open market valuation 1998	8,880	—
At cost	26,057	22,296
	£53,542	£55,439

The properties included above at valuation 1998 (valuation 1995) are the group properties in Australia, which under a requirement of Australian corporations law are revalued every three years. Valuations are carried out by professional valuers on the basis of open market value subject to existing use. All other group properties are stated at cost or earlier professional valuations.

All other tangible fixed assets are stated at cost.

12 Tangible fixed assets continued

	The group 1998 £000	The group 1997 £000
If stated under historical cost principles the comparable amounts for the total of land and buildings would be:		
Cost	41,495	42,012
Accumulated depreciation	7,377	7,975
Historical cost net value	£34,118	£34,037
Future capital expenditure		
Commitments placed at year-end	£8,565	£9,386

13 Subsidiary companies

	Shares £000	Loans £000	Total £000
Parent company			
Cost at 31st May 1997	85,458	1,400	86,858
Additions in the year	—	2,984	2,984
Disposals in the year	(1,053)	—	(1,053)
Cost at 31st May 1998	£84,405	£4,384	£88,789
Provisions at 31st May 1997	13,781	—	13,781
Provided in the year	1,025	—	1,025
Disposals in the year	(1,053)	—	(1,053)
Provisions at 31st May 1998	£13,753	—	£13,753
Net book value at 31st May 1998	£70,652	£4,384	£75,036
Net book value at 31st May 1997	£71,677	£1,400	£73,077

Details of principal group companies are given in note 28.

Disposals in the year relate to the winding up of a non-trading company in Cameroun.

During the year further capital was invested by intermediate holding companies in the subsidiaries in China, India, Poland and Thailand. In addition, Cussons Middle East and South Asia FZE, a new wholly owned subsidiary of Cussons Group Limited, was established.

14 Associated companies

	The group			Parent company
	Cost of shares £000	Share of reserves £000	Total £000	Cost of shares £000
At 31st May 1997	5,440	18,093	23,533	5,440
Currency retranslation	—	(205)	(205)	—
Purchase of additional shares	1,596	(698)	898	1,596
Share of retained profits	—	2,638	2,638	—
At 31st May 1998	£7,036	£19,828	£26,864	£7,036

The above details concern the associated company listed on the Nigerian stock exchange. The market value of the group's holding of shares in that company at 31st May 1998 was £41,635,000 (1997 – £109,280,000).

If the shares in the listed associated company had been realised at 31st May 1998 at market value, there would have been a liability to taxation on capital gains estimated at £3,670,000 (1997 – £24,189,000) all of which relates to the parent company.

Further details of the associated companies are given in note 27.

15 Other fixed asset investments

	Listed £000	Unlisted £000	Total £000
The group and parent company			
At cost:			
At 31st May 1997	48	210	258
Disposals in the year	(47)	—	(47)
At 31st May 1998	£1	£210	£211
Provisions:			
At 31st May 1997 and 31st May 1998	—	£150	£150
Net book values:			
At 31st May 1998	£1	£60	£61
At 31st May 1997	£48	£60	£108
Market value of listed investments:			
At 31st May 1998	£2,314		
At 31st May 1997	£3,480		

If the shares in the listed investments had been realised at 31st May 1998 at market value, there would have been a liability to taxation on capital gains estimated at £231,000 (1997 – £347,000) all of which relates to the parent company.

16 Stocks

	The group		Parent company	
	1998 £000	1997 £000	1998 £000	1997 £000
Raw materials and consumables	27,688	30,037	—	—
Work in progress	2,994	3,545	—	—
Finished goods and goods for resale	24,943	24,750	—	—
	£55,625	£58,332	—	—

17 Debtors

	The group 1998 £000	The group 1997 £000	Parent company 1998 £000	Parent company 1997 £000
Trade debtors	42,831	39,380	—	—
Amounts owed by group companies	—	—	47,705	39,941
Amounts owed by associated companies	457	147	—	—
United Kingdom taxation recoverable	142	177	—	—
Overseas taxation recoverable	343	38	—	—
Other debtors, including deposits	10,844	6,380	52	67
Prepayments and accrued income	2,764	5,087	2	1,115
Pension fund prepayment	2,330	2,492	2,330	2,492
Deferred taxation (note 21)	2,962	1,375	1,500	1,388
	£62,673	£55,076	£51,589	£45,003

Included above, but falling due after more than one year:				
Overseas taxation recoverable	25	9	—	—
Other debtors	152	332	—	—
Pension fund prepayment	2,330	2,492	2,330	2,492
Deferred taxation (note 21)	2,962	1,375	1,500	1,388
	£5,469	£4,208	£3,830	£3,880

18 Current asset investments

At cost less amounts written off:	The group 1998 £000	The group 1997 £000	Parent company 1998 £000	Parent company 1997 £000
Listed	59,807	57,011	30,982	16,645
Unlisted	6,315	7,099	6,226	7,099
Deposits	40,960	42,768	22,714	2,529
	£107,082	£106,878	£59,922	£26,273
Market value of listed investments	£69,705	£69,451	£37,765	£27,154

If the listed investments had been realised at 31st May 1998 at market value, there would have been a liability to taxation estimated at £2,363,000 (1997 – £3,158,000) of which £1,507,000 relates to the parent company (1997 – £2,855,000)

19 Creditors – due within one year

	The group 1998 £000	The group 1997 £000	Parent company 1998 £000	Parent company 1997 £000
Others				
Trade creditors	31,187	27,681	—	—
Amounts owed to group companies	—	—	22,261	7,375
Amounts owed to associated companies	5,322	11,011	—	—
United Kingdom corporation tax	10,016	8,834	2,724	2,248
Overseas income tax	1,038	1,474	—	70
Other taxation and social security	2,482	2,949	—	—
Other creditors	11,318	9,905	248	211
Accruals and deferred income	21,904	16,080	98	198
Proposed dividends	6,001	5,551	6,001	5,551
	£89,268	£83,485	£31,332	£15,653

20 Creditors – due after one year

	The group 1998 £000	The group 1997 £000
Bank loans		
Bank loans, due after one year, are repayable:		
Between two and five years	£4,962	£4,640
Interest is payable on the above bank loans at variable commercial rates.		
Others		
Other creditors	583	728
Accruals and deferred income	4,753	1,938
Pension fund accrual	4,129	3,884
	£9,465	£6,550

21 Provisions for liabilities and charges

	Deferred taxation (note 22) £000	Pensions and similar obligations £000	Others £000	Total £000
The group				
At 31st May 1997	—	4,784	644	5,428
Included in debtors at 31st May 1997 (note 17)	(1,375)	—	—	(1,375)
Currency retranslation	(205)	(412)	(14)	(631)
Profit and loss account	(1,270)	(563)	(27)	(1,860)
Advance corporation tax movement	(112)	—	—	(112)
Included in debtors at 31st May 1998 (note 17)	2,962	—	—	2,962
At 31st May 1998	—	£3,809	£603	£4,412
Parent company				
At 31st May 1997	—	1,875	—	1,875
Included in debtors at 31st May 1997 (note 17)	(1,388)	—	—	(1,388)
Advance corporation tax movement	(112)	—	—	(112)
Included in debtors at 31st May 1998 (note 17)	1,500	—	—	1,500
At 31st May 1998	—	£1,875	—	£1,875

22 Deferred taxation

	The group 1998 £000	The group 1997 £000	Parent company 1998 £000	Parent company 1997 £000
Dealt with in the accounts:				
Tangible fixed assets	4,625	4,585	—	—
Other timing differences	(6,087)	(4,572)	—	—
	(1,462)	13	—	—
Less: Advance corporation tax recoverable	(1,500)	(1,388)	(1,500)	(1,388)
	£(2,962)	£(1,375)	£(1,500)	£(1,388)
Not dealt with in the accounts:				
Tangible fixed assets	£1,125	£982	—	—

23 Pensions and retirement benefits

The company and most of its operating subsidiaries in the United Kingdom and overseas have retirement benefit plans.

For United Kingdom employees the plans all provide defined benefits based on employees' years of service and final remuneration and are funded through separate trustee-administered schemes. The schemes are normally valued triennially by independent professional actuaries. The last valuation, as at 1st June 1997, indicated asset values of £106m and surpluses of £22m. These surpluses are being credited to profit over the estimated remaining service lives of the existing employees. In arriving at these figures the actuaries have used the projected unit method, and have assumed a rate of investment return of 8½%, earnings inflation of 6½%, and dividend growth of 4%. The combined level of funding for these schemes is 137%.

Overseas employees are covered by a number of schemes which depend on a variety of local circumstances. The more significant of these schemes are defined benefit, funded, in surplus, and are valued triennially by independent professional actuaries. None of the overseas schemes individually is material on a group basis.

The total pension charge for the group for the year to 31st May 1998 amounted to £1,306,000 (1997 – £1,466,000). This comprised a regular charge of £3,238,000 (1997 – £3,161,000) reduced by the credit for past service surpluses of £1,932,000 (1997 – £1,695,000).

24 Called up share capital

	1998 Number 000	1998 Amount £000	1997 Number 000	1997 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	24,445	2,444	24,445	2,444
'A' (non-voting) ordinary shares of 10p each	22,999	2,300	22,999	2,300
	47,444	£4,744	47,444	£4,744
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		£12,642		£12,642

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.

25 Reserves

	Revaluation reserve £000	Profit & loss account £000	Total £000
The group and associated companies			
At 31st May 1997	27,698	181,474	209,172
Currency retranslation	(2,570)	(16,729)	(19,299)
Profit for the financial year retained	—	13,597	13,597
Surplus on revaluation of properties	1,794	—	1,794
Arising on changes in interests in subsidiaries and associates	—	(1,386)	(1,386)
Transfers between reserves	(150)	150	—
At 31st May 1998	£26,772	£177,106	£203,878
Attributable to associated companies	£7,813	£12,015	£19,828
Parent company			
At 31st May 1997		100,313	100,313
Profit for the financial year retained		16,225	16,225
At 31st May 1998		£116,538	£116,538

	Parent company £000	Sub-sidiaries £000	Associated companies £000	Total £000
Total reserves				
At 31st May 1997	100,313	90,766	18,093	209,172
Currency retranslation	—	(19,094)	(205)	(19,299)
Profit for the financial year retained	16,225	(5,266)	2,638	13,597
Surplus on revaluation of properties	—	1,794	—	1,794
Arising on changes in interests in subsidiaries and associates	—	(688)	(698)	(1,386)
At 31st May 1998	£116,538	£67,512	£19,828	£203,878

The cumulative goodwill written off against group reserves is £10,691,000 (1997 – £9,305,000).

26 Notes on the group cash flow statement

(i) Reconciliation of operating profit to operating cash flows

	1998 £000	1997 £000
Operating profit	20,170	18,169
Depreciation and adjustments on disposals	8,926	9,486
Provisions	(590)	(135)
Stocks	(4,320)	(6,428)
Debtors	(12,464)	(3,903)
Creditors	12,112	(3,777)
Net cash flow from operating activities	£23,834	£13,412

(ii) Analysis of amounts shown net in the cash flow statement

	1998 £000	1997 £000
Returns on investments and servicing of finance		
Investment income received	13,119	11,110
Interest paid	(5,506)	(4,443)
Dividends received from associated company	1,873	—
Preference dividends paid to PZ plc shareholders	(770)	(770)
Dividends paid to minority shareholders in subsidiary companies	(3)	(5)
Net cash inflow for returns on investments and servicing of finance	£8,713	£5,892
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(29,437)	(39,621)
Sale of tangible fixed assets	1,716	1,198
Sale of trade investment	119	—
Net cash outflow for capital expenditure and financial investment	£(27,602)	£(38,423)
Acquisitions and disposals		
Purchase of interests in subsidiaries	(926)	(223)
Cash contributed by minority shareholders	468	1,162
Net overdraft in subsidiary prior to merger with associate	—	851
Purchase of interests in associates	(1,596)	(2,271)
Net cash outflow for acquisitions and disposals	£(2,054)	£(481)
Management of liquid resources		
Net decrease in short term deposits	1,465	36,236
Purchase of current asset investments	(35,536)	(30,244)
Sale of current asset investments	33,524	30,883
Net cash (outflow)/inflow from management of liquid resources	£(547)	£36,875
Financing		
Net increase/(decrease) in short term borrowing	16,428	(1,509)
New medium term loans	790	4,640
Net cash inflow from financing	£17,218	£3,131

26 Notes on the group cash flow statement continued

(iii) Analysis of net funds

	At 31st May 1997 £000	Cash flow £000	Exchange difference £000	At 31st May 1998 £000
Cash in hand and at bank	8,020	(1,151)	(703)	6,166
Overdrafts	(19,247)	2,812	1,190	(15,245)
		1,661		
Loans due within one year	(22,661)	(16,428)	541	(38,548)
Loans due after one year	(4,640)	(790)	468	(4,962)
		(17,218)		
Deposits	42,768	(1,465)	(343)	40,960
Other current asset investments	64,110	2,012	—	66,122
		547		
	£68,350	£(15,010)	£1,153	£54,493

(iv) Changes in interests in subsidiaries and associates

During the year additional interests were acquired in the associate and in an existing subsidiary in Poland. The investment in China was increased with contributions from the minority shareholders on a pro-rata basis.

	Subsidiaries £000	Associates £000	Total £000
Net assets acquired	238	898	1,136
Goodwill	688	698	1,386
Cash paid	926	1,596	2,522
Cash contributed by minority shareholders	(468)	—	(468)
Net cash paid	£458	£1,596	£2,054

27 Details of associated companies

Listed by principal country of operation

		Incorporated in:	Parent company's interest
Nigeria			
Paterson Zochonis Industries plc	Manufacture of soaps, detergents, toiletries, perfumery, cosmetics, pharmaceutical products, confectionery, refrigerators and air conditioners.	Nigeria	*48.22%
Paterson Zochonis Nigeria plc	Merchanting of imported and locally manufactured goods.	Nigeria	†48.22%
Ekopak Nigeria plc	Packaging manufacture.	Nigeria	†48.22%
Roberts Pharmaceuticals Ltd	Manufacture of pharmaceutical products.	Nigeria	†48.22%

None of the above companies has any class of share capital other than ordinary.
*Shares held by the parent company
†Shares held by associated company

The group share of the profits and net assets of the listed associated company and its subsidiaries in Nigeria is based on the audited accounts for the year ended 31st May 1998 translated to sterling at the rates of exchange stated:

	1998 Total £000	1998 Group share of 48.22% £000	1997 Total £000	1997 Group share of 46.46% £000
Turnover	103,143	—	110,922	—
Profit before taxation	11,506	5,447	15,652	7,222
which is stated after charging depreciation	1,696	—	1,283	—
Adjustment for the effect of hyper-inflation	—	—	—	(1,900)
Issued share capital				
1,116,969,367 ordinary shares of 50k each (1997 – 1,116,969,367 shares)	3,979	1,919	4,007	1,862
Floating rate redeemable debenture stock 1997/2004 (unsecured)	321	—	377	—
Floating rate redeemable loan stock 1999/2006 (unsecured)	712	—	718	—
Reserves	48,945	23,602	43,842	20,368
Proposed dividend	—	1,343	—	1,303
Group interest included in note 14		£26,864		£23,533

£1=N140.3700 (1997 – £1=N139.3708)

28 Principal group companies

		Incorporated in:	Parent company's interest
Parent company			
Paterson Zochonis plc	Holding company.	England	
Subsidiary companies			
Listed by principal country of operation			
United Kingdom			
Cussons Group Ltd.	Holding company.	England	*100%
Cussons (U.K.) Ltd.	Manufacture of soaps, toiletries and household products.	England	†100%
Cussons (International) Ltd.	Exporting of soaps, toiletries and general merchandise. The provision of industrial supplies and technical services principally to group and associated companies.	England	†100%
Cussons Investments China Ltd.	Holding company.	England	†74%
Fragrance Chemicals Ltd.	Manufacture of perfume blends.	England	†100%
Parnon Ltd.	Wholesaling.	England	*100%
P.C. Products (1001) Ltd.	Manufacture of household products.	England	†100%
Australia			
Cussons Australia Pty. Ltd.	Holding company.	Australia	†100%
Cussons Pty. Ltd.	Manufacture of soaps, detergents, toiletries and medicinal preparations.	Australia	†100%
Cameroun			
Sipca S.A.	Manufacture of toiletries and perfumery.	Cameroun	‡*99%
Canada			
Cussons Canada Inc.	Manufacture of household products.	Canada	*100%
China			
Cussons (Qingdao) Toiletries Co. Ltd.	Manufacture of soaps and toiletries.	China	†64%
France			
Societe D'Exportation Importation Haussmann S.A.	Buying office for group companies.	France	*99%
Ghana			
Paterson Zochonis Ghana Ltd.	Merchanting of imported and locally manufactured goods.	Ghana	*90%
Paterson Zochonis Industries (Ghana) Ltd.	Manufacture of soaps, toiletries and proprietary medicines.	Ghana	†90%
Greece			
Minerva S.A.	Processing of edible oils and fats.	Greece	*100%

28 Principal group companies continued

		Incorporated in:	Parent company's interest
Hong Kong			
Cussons Toiletries (China) Ltd.	Distribution of soaps and toiletries.	Hong Kong	†100%
India			
Cussons India Private Ltd.	Distribution of soaps and toiletries.	India	†100%
Indonesia			
P.T. Cussons Indonesia	Manufacture of soaps and toiletries.	Indonesia	†90%
P.T. Cussons Distributor Indonesia	Distribution of soaps and toiletries.	Indonesia	†72%
Jersey			
Fairfield Ltd.	Investment company.	British Virgin Islands	*100%
Kenya			
Cussons & Co. Ltd.	Manufacture of soaps, toiletries and proprietary medicines.	Kenya	†100%
New Zealand			
Cussons (New Zealand) Pty. Ltd.	Distribution of soaps and toiletries.	Australia	†100%
Poland			
Cussons Polska S.A.	Manufacture of soaps and detergents.	Poland	†99%
Uroda S.A.	Manufacture of toiletries.	Poland	†99%
Thailand			
Cussons (Thailand) Ltd.	Manufacture of soaps and toiletries.	Thailand	†100%
United Arab Emirates			
Cussons Middle East and South Asia FZE	Distribution of soaps and toiletries.	Dubai	†100%

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

*Shares held by the parent company
†Shares held by a subsidiary
‡Local accounts are made up to 30th June to comply with local regulations.

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

FIVE YEAR RECORD

Year to 31st May	1998	1997	1996	1995	1994
	£000	£000	£000	£000	£000
Group profit before taxation	27,263	24,864	24,745	22,785	23,410
Share of profits of associated companies	5,447	5,322	4,428	2,341	4,725
Profit before taxation	32,710	30,186	29,173	25,126	28,135
Taxation	10,572	9,565	9,470	8,547	9,568
Profit after taxation	22,138	20,621	19,703	16,579	18,567
Minority interests	(1,006)	(594)	877	460	434
Profit for the financial year	23,144	21,215	18,826	16,119	18,133
Preference dividends	770	770	770	770	770
Profit attributable to ordinary capital	22,374	20,445	18,056	15,349	17,363
Ordinary dividends	8,777	8,161	7,591	7,117	6,571
Profit retained	£13,597	£12,284	£10,465	£8,232	£10,792
Net assets employed	£222,167	£229,522	£240,080	£222,861	£234,397
Per ordinary share:					
Earnings	47.16p	43.09p	38.06p	32.35p	36.60p
Dividend	18.50p	17.20p	16.00p	15.00p	13.85p
Times cover	2.5	2.5	2.4	2.2	2.6
Net assets	440p	451p	465p	438p	458p

Notes

1 References to ordinary shares include 'A' ordinary shares.

2 Net assets employed are after taking account of the property revaluations at 31st May 1989, 31st May 1994, 31st May 1995 and 31st May 1998 as appropriate.

NOTICE OF MEETING

Notice is hereby given that the annual general meeting of the members of Paterson Zochonis plc will be held at the Holiday Inn Crowne Plaza Midland Hotel, Peter Street, Manchester on Monday the 7th day of December 1998, at 12 noon, for the following purposes:

1. To receive the accounts for the year ended 31st May 1998 and the reports of the directors and the auditors thereon.
2. To declare a final dividend of 12.65p per share on the ordinary and 'A' ordinary share capital of the company.
3. To re-elect K. Herbert a director of the company.
4. To re-elect J. R. L. Lee a director of the company.
5. To re-elect J. Spyridoulias a director of the company.
6. To elect A. G. Calder a director of the company.
7. To elect P. J. Smyth a director of the company.
8. To elect D. C. Godwin a director of the company.
9. To re-appoint Deloitte & Touche 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 resolution as a special resolution:

10. That pursuant to article 5 of the company's articles of association the company be and it is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Companies Act 1985) of ordinary and 'A' (non-voting) ordinary shares of 10p each in the capital of the company provided that:

    (i) The maximum number of shares which may be purchased pursuant to this authority is:
    2,440,000 ordinary shares and
    2,299,000 'A' (non-voting) ordinary shares.

    (ii) The maximum price which may be paid for a 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 day of purchase.

    (iii) The minimum price which may be paid for a share is 10p.

    (iv) Unless renewed prior to such date, this authority shall expire at the conclusion of the next annual general meeting provided that the company may make a contract to purchase ordinary or 'A' (non-voting) ordinary shares before the expiry of this authority which will or may be executed wholly or partly after the expiry of this authority and may make a purchase in pursuance of such contract.

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 for use by ordinary shareholders. In order to be valid, proxies must be received at the offices of the company not later than 48 hours before the time appointed for the meeting. Please refer to note 1 overleaf.

Dated this sixth day of November 1998

By order of the board of directors
T. F. G. HARRISON – Secretary

Notes

1. The company, pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only holders of ordinary shares registered in the register of members of the company as at 6.00 am on 7th December 1998 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 am on 7th December 1998 shall be disregarded in determining the right of any person to attend and vote at the meeting.
2. 'A' ordinary shareholders and preference shareholders receive this notice and the report and accounts for information only and are not entitled to attend or vote at the annual general meeting.
3. In accordance with the requirements of the London Stock Exchange copies 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 also on the date and at the place of the meeting from 11.45 am until the conclusion of the meeting.


REMOVES GERMS FROM DISHES
MORNING FRESH
MORNING FRESH
REMOVES GERMS FROM DISHES
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MORNING FRESH
REMOVES GERMS FROM DISHES
MORNING FRESH


pure
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IMPERIAL LEATHER
ORIGINAL
IMPERIAL LEATHER
MILD WHITE
IMPERIAL LEATHER
MILD WHITE


RADIANT XL
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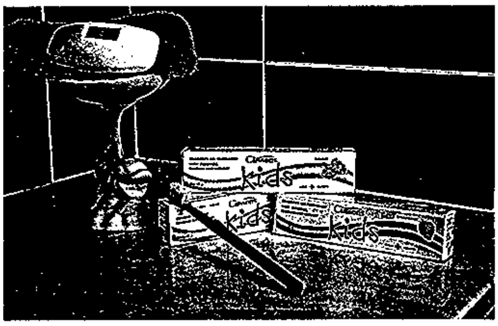
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IMPERIAL LEATHER
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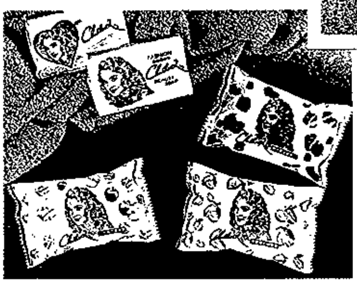
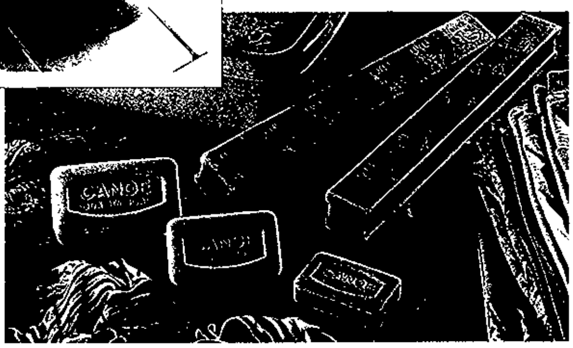
IMPERIAL LEATHER
Cussons
BUY 1 GET 1 FREE

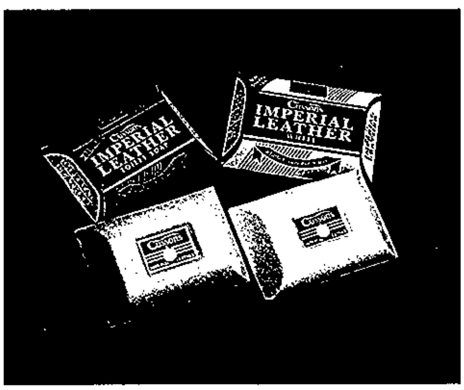

NUSHI



AFRICA


premier
mild & gentle


CANOE


IMPERIAL LEATHER
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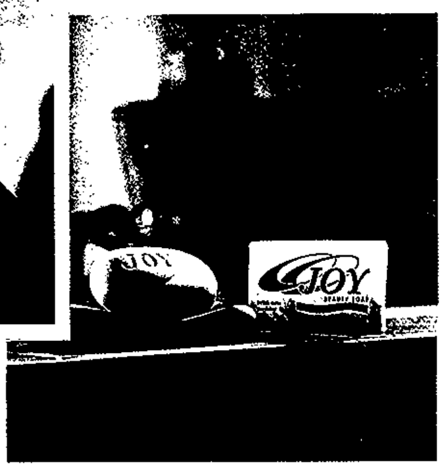

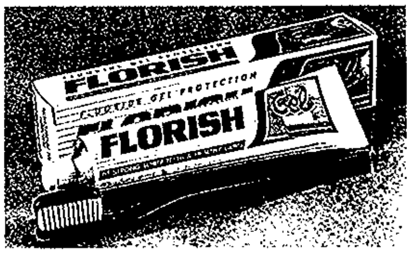

PATERSON ZOCHONIS plc

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