

DIRECTORS

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.

J. R. L. LEE, F.C.A.*

C. NICOLOULIAS

W. S. ROGERS*

J. D. M. SMITH*

P. J. SMYTH

J. SPYRIDOULIAS

*non-executive

Secretary

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

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Registered number

Company registered number 19457

Registrars

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COMPANIES HOUSE

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CHAIRMAN'S STATEMENT

I am very pleased to be able to report that the actions taken across the group towards improving operating margins and increasing cash resources have produced positive results.

These actions, which are ongoing, combined with the focus on our key developing markets and our core product ranges, should enable the group to continue to increase profitability and achieve longer term growth. The new profit incentive scheme recently introduced is an important support to the success of this plan.

John Lee, our senior non-executive director, will be retiring at the end of December after eleven years with PZ. Throughout this period he has been a most valued board colleague and his contribution, especially in financial matters, much appreciated. I wish him every happiness for the future.

I am delighted to advise of two new appointments to the board.

Costas Nicoloulias was appointed an executive director on 1st June 2000, taking over responsibility for the group's operations in China, Indonesia and Thailand. He first joined the group in 1970 and over the years has held a number of senior positions in our subsidiaries in Africa and more recently in the Far East.

Mike Smith was appointed a non-executive director on 1st March 2000. He retired from the board of BTR plc in 1996 after a 28 year career with that company, the last nine as a main board director. His broad experience of running businesses both in Europe and around the world will be of great benefit to the group.

The past year has seen significant change within the group and I would like to thank all of our staff for responding very positively to the actions taken and assisting in delivering the results achieved.



ANTHONY GREEN
Chairman

Highlights

- Considerable success has been achieved during the year with pre-tax profits before exceptional items increasing from £29.4m to £39.5m reflecting:
 - Improved operating results in Indonesia, Nigeria, Eastern Europe and China.
 - The consolidation of Nigeria as a subsidiary rather than an associate.
- Net funds have increased from £28.9m to £85.6m as a result of the improved profitability and reductions in working capital.
- The board is recommending a dividend increase for the year of 10.25%.

Europe

The UK business has achieved an increase in turnover of 18% but advertising and promotion costs, particularly in supporting the extension of the Imperial Leather brand with Foamburst and Aquasource, have restricted profit improvement. Benefits from these launches will be seen in the current year.

Sales levels in Eastern Europe have remained at a similar level to the previous year, however the continuing action taken to reduce costs has resulted in the unit moving into profitability.

The Greek unit has experienced a difficult year, with a very competitive local market and tight monetary policy being maintained within the country. This has impacted on turnover and profitability.

Asia

Overall results in the region have shown improvement in profitability with Indonesia performing particularly strongly with sales and profit growth in excess of 20%.

In China, the programme of reorganisation and cost reduction undertaken last year has resulted in a material reduction in losses being incurred, however future progress depends on sales growth being achieved through the new distribution network now being established. The board remains optimistic of the success of this venture in the longer term.

Australia has had a disappointing year suffering generally from pressure on margins, but indications of improvement are now being seen.

Thailand and the Middle East achieved improved results.

Africa

During the year the group has increased its interest in the Nigerian company to over 50%, and since the year-end has increased this further to 59%. Although these are early days, the actions now being taken by the new civilian government in Nigeria and the effect of higher oil prices are beginning to impact positively throughout the economy. Turnover and profitability of the Nigerian subsidiary show some improvement on the previous year after a number of years of decline.

Results in the other African units, Ghana, Kenya and Cameroun, are similar to the previous year.

Exceptional item

As disclosed in previous years' annual report and accounts, the results of the Nigerian companies took account of provisions for claims by group companies for technical fees and royalties which were unpaid. Prior to 1st June 1999, due to the operation of exchange control restrictions and the degree of uncertainty relating to the items concerned, these items had not been recognised in the group's operating profit. These amounts have now been reflected as exceptional income of £6.0m within operating profit, and since the year-end have been remitted in full.

Dividend

As a result of improved profitability, reductions in working capital and a strong performance in the equity portfolio, the balance sheet has been strengthened with net funds increasing from £28.9m to £85.6m. The combination of these factors has enabled the board to recommend a dividend increase of 10.25%.

Outlook

Improvements in operating performance should be achieved in all our major units in the year to 31st May 2001, as a result of the continuing actions being taken to increase operating margins and the current economic stability in our principal developing markets.

Shareholder return

Earnings per share have increased to 59.43p from 37.87p after exceptional items and to 50.61p from 46.62p before exceptional items.

Net assets per share have increased to 526p from 500p.

The board is recommending a final dividend of 15.35p per share which, together with the interim dividend of 6.15p gives a total distribution of 21.5p, an increase of 10.25% over the total of 19.5p last year.

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 2000 were £85.6m (1999 – £28.9m), an analysis of which is provided in notes 25(iii) and 26. 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 and investments, details of which are given in note 26.

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.



A. G. CALDER
Finance Director

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements of the group for the year ended 31st May 2000.

Principal activities

The principal activities of the group are the manufacture and distribution of soaps, detergents, toiletries, pharmaceuticals, refrigerators and air conditioners.

Further details of these and other group activities are given on pages 36 and 37.

Presentation of accounts

The group's interest in the listed company in Nigeria has increased to over 50% and the results and net assets, previously accounted for as an associate, have been consolidated as a subsidiary from 1st June 1999. The impact on the results for the period is shown separately on the face of the profit and loss account and in note 2. The impact on the consolidated balance sheet and operating cash flow is shown in note 27.

Results and dividends	£000	£000
Profit for the financial year		28,965
Dividends:		
Preference: as shown on page 23 note 10		770
		<u>28,195</u>
Ordinary:		
Interim at 6.15p (1999 - 5.85p)	2,918	
Proposed final at 15.35p (1999 - 13.65p)	7,283	
		<u>10,201</u>
Profit retained		<u>£17,994</u>

Further analysis of the group's results for the year can be found in the operating and financial review on pages 4 and 5.

Directors

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

Mr. J. D. M. Smith was appointed a non-executive director on 1st March 2000 and Mr. C. Nicoloulis was appointed an executive director on 1st June 2000.

The directors retiring by rotation are Mr. C. N. Green, Mr. A. G. Calder, Mr. W. S. Rogers and Mr. P. J. Smyth who, being eligible, offer themselves for re-election.

Non-executive directors

Mr. J. R. L. Lee

Formerly a Government Minister, Mr. Lee is currently chairman of the Manchester Museum of Science & Industry. Appointed to the board of Paterson Zochonis plc in 1990, Mr. Lee is the senior non-executive director.

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 former senior corporate partner of Cazenove & Co., the London stockbrokers.

Appointed to the board of Paterson Zochonis plc on 1st October 1998.

Mr. J. D. M. Smith

Was for many years an executive director of BTR plc.

Appointed to the board of Paterson Zochonis plc on 1st March 2000.

REPORT OF THE DIRECTORS continued

Directors' interests

The directors' interests in the share capital of the company at 31st May 2000 (1st June 1999 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	3,565,570	3,565,570	2,318,244	2,318,244	3,871	3,871	100	100
C. N. Green	3,566,352	3,565,352	2,300,243	2,297,743	3,870	3,870	9,300	9,300
A. G. Calder	10,000	10,000	3,500	3,500	-	-	-	-
P. Giouras	21,500	21,500	9,801	9,801	-	-	-	-
D. C. Godwin	5,000	1,000	10,500	500	-	-	-	-
T. F. G. Harrison	1,955	1,955	1,090	1,090	-	-	74	74
J. R. L. Lee	27,627	24,557	21,000	13,500	-	-	-	-
W. S. Rogers	3,000	1,000	3,000	-	-	-	-	-
J. D. M. Smith	3,000	-	-	-	-	-	-	-
P. J. Smyth	2,000	2,000	1,000	1,000	-	-	-	-
J. Spyridoulis	3,000	3,000	2,000	-	-	-	100	100
Sub-total	7,209,004	7,195,934	4,670,378	4,645,378	7,741	7,741	9,574	9,574
Less duplication (see note)	3,461,172	3,461,172	2,251,078	2,251,078	3,000	3,000	-	-
Total	3,747,832	3,734,762	2,419,300	2,394,300	4,741	4,741	9,574	9,574
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	4,288,750	4,288,750	206,279	206,279	-	-	-	-
P. Giouras	42,350	42,350	20,316	20,316	-	-	-	-
J. R. L. Lee	1,050	1,050	15,000	-	-	-	105	105
Sub-total	4,665,365	4,665,365	582,667	567,667	334	334	105	105
Less duplication (see note)	-	-	15,000	15,000	-	-	-	-
Total	4,665,365	4,665,365	567,667	552,667	334	334	105	105

The directors' interests at 4th September 2000 were unchanged, other than the shareholding of the director who was appointed after 31st May 2000 which is shown below.

Beneficial	Ordinary shares	'A' ordinary shares	7½% cumulative preference shares	10% cumulative preference shares
C. Nicoloulis	1,000	-	-	-

Note: 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.

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 4th September 2000:

	Number of voting shares	%
J. B. Zochonis	2,683,845	10.98
British Telecom Pension Scheme	1,081,216	4.42
Paterson Zochonis Provident Trust Ltd.	910,395	3.72
Phillips & Drew Holding Ltd.	893,623	3.65

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 2001 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 (1999 - £50,000). No political contributions were made (1999 - Nil).

Research and development

The group maintains inhouse 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 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.

By order of the board of directors

T. F. G. HARRISON - Secretary

7th September 2000



C O R P O R A T E G O V E R N A N C E

In June 1998, the Committee on Corporate Governance issued the Combined Code which was incorporated into the Listing Rules of the UK Listing Authority. The code covers four principal areas which are dealt with below.

The board

The board of directors has eleven members comprising the chairman, the chief executive, five other executive directors and four non-executive directors. All of the non-executive directors are independent within the meaning of the Combined Code.

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 co-ordinating the running of the business and implementing group strategy. Agreed procedures are in place for all directors to receive appropriate training and to take independent professional advice if necessary.

Further details of directors are given on pages 2 and 6.

The board meets on a regular basis and has a formal schedule of matters reserved to it for decision making, including the approval of annual and interim results, annual budgets, acquisitions and disposals, material agreements and major capital commitments.

The board has established a number of standing committees to which various matters are delegated according to defined terms of reference. The principal committees are the nominations committee, the remuneration committee and the audit committee.

The nominations committee makes recommendations to the board on all new board appointments. The committee members are the chairman (also committee chairman), the chief executive and the non-executive directors.

Directors' remuneration

Details of directors' remuneration are set out in the report on directors' remuneration on pages 11 and 12.

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.

Accountability and audit

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.

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.

Accountability and audit continued**Internal control**

The Combined Code extends the existing requirements to review the effectiveness of internal financial control to cover all controls, including financial, operational, compliance and risk management. 'Internal Control: Guidance for Directors on the Combined Code' was published in September 1999. The group has adopted the transitional approach for the Combined Code set out in the letter from the London Stock Exchange (now referred to as the UK Listing Authority) to listed companies and reports as follows:

Wider aspects of internal control

The board confirms that it has established the procedures necessary to implement the Turnbull guidance such that full compliance will be achieved for the financial year 1st June 2000 to 31st May 2001.

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.

Audit committee

The audit committee, comprising the non-executive directors, meets regularly with the external auditors to monitor the adequacy of the group's internal controls, accounting policies and financial reporting.

Compliance statement

The directors consider that, throughout the accounting period, the company complied with the provisions of Section 1 of the Combined Code, save for the following exceptions:

- Code provision A.3.1 requires not less than one third of the board to be non-executive. On 1st March 2000 an additional non-executive director was appointed, therefore for the period 1st June 1999 to 29th February 2000 the company fell short of this requirement.
- Code provision A.6.2 states that all directors should be subject to re-election at intervals of no more than three years. The company's articles of association were amended accordingly at the annual general meeting on 1st November 1999, therefore for the period 1st June 1999 to 31st October 1999, the company fell short of this requirement.

As permitted by the UK Listing Authority, the company has complied with code provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance on internal control and financial reporting that was issued in December 1994.

REPORT ON DIRECTORS' REMUNERATION

The remuneration committee

The members of the committee during the year were Messrs. D. C. Godwin, J. R. L. Lee, W. S. Rogers and J. D. M. Smith. 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.

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 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.

As part of the group focus on improved operating performance a Deferred Annual Share Bonus Scheme has been introduced with effect from 1st June 2000, for main board executive directors and certain key subsidiary directors. The award of a bonus will be dependent upon the achievement of operating profit targets and will be made in ordinary and 'A' ordinary shares which will be purchased in the market and retained in an employee trust, normally for three years. The value of awards made in any year will not exceed 30% of an individual's basic salary.

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

The following table shows remuneration of individual directors for the year ended 31st May 2000.

	Salary/ fees £	Taxable benefits £	2000 Total £	1999 Total £
Executive directors				
A. J. Green (chairman)	176,881	22,428	199,309	191,288
C. N. Green	200,339	21,660	221,999	210,524
A. G. Calder	166,965	16,843	183,808	169,792
P. Giouras*	706,653	18,944	725,597	210,447
T. F. G. Harrison	144,760	19,612	164,372	153,750
K. Herbert (to 31st March 1999)	-	-	-	154,356
P. J. Smyth	160,974	14,551	175,525	165,809
J. Spyridoulis	143,351	19,933	163,284	150,165
Non-executive directors				
D. C. Godwin (from 1st October 1998)	15,000	-	15,000	10,000
D. I. Hunter (to 31st December 1998)	-	-	-	8,750
J. R. L. Lee	15,000	-	15,000	15,000
W. S. Rogers	15,000	-	15,000	15,000
J. D. M. Smith (from 1st March 2000)	3,750	-	3,750	-
	<u>£1,748,673</u>	<u>£133,971</u>	<u>£1,882,644</u>	<u>£1,454,881</u>
Payments to former directors for continuing services	<u>£85,000</u>	<u>-</u>	<u>£85,000</u>	<u>£116,542</u>

* The figures shown above in respect of Mr. P. Giouras include a bonus of £500,000 acknowledging the very special contribution he has made to the group's success in Africa and the taking on of additional duties in China, Indonesia and the rest of South East Asia.

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 2000 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 2000 £	Transfer value of the increase in accrued pension during the year £
A. J. Green	5,576	83,175	58,171
C. N. Green	6,254	86,603	59,076
A. G. Calder	6,358	74,905	79,767
P. Giouras	9,807	134,778	169,533
T. F. G. Harrison	7,325	94,976	118,268
P. J. Smyth	5,938	61,184	51,943
J. Spyridoulas	5,894	79,952	84,801

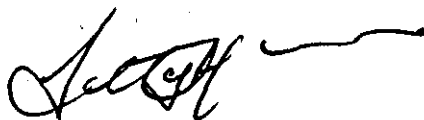
Notes:

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.
3. The total accrued pension as at 31st May 2000 includes benefits arising from transfers received by the plan. Benefits transferred in from arrangements outside the Paterson Zochonis group are excluded from the increase in accrued pension during the year and the associated transfer value.
4. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less directors contributions.
5. The directors have the option to pay additional voluntary contributions. Neither the contributions nor the resulting benefits are included in the above table.
6. 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 board of directors
A. J. GREEN



AUDITORS' REPORT TO THE MEMBERS OF PATERSON ZOCHONIS plc

We have audited the financial statements on pages 14 to 37 which have been prepared under the accounting policies set out on pages 18 and 19.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 9 preparation of the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the UK Listing Authority and by our profession's ethical guidance.

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

We review whether the corporate governance statement on pages 9 and 10 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the UK Listing 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 other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We 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. 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 2000 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

7th September 2000

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year to 31st May 2000

	Notes	2000 £000	1999 £000
Turnover	1,2		
Group – third parties		307,804	304,057
– associated companies		–	53,240
		<u>307,804</u>	<u>357,297</u>
Former Nigerian associate now consolidated as a subsidiary		101,270	–
		<u>409,074</u>	<u>357,297</u>
Operating profit	2		
Group excluding Nigeria		18,548	17,048
Former Nigerian associate now consolidated as a subsidiary		11,248	–
Exceptional income/(charge)	3	5,979	(6,292)
		<u>35,775</u>	<u>10,756</u>
Share of operating profit of associated companies		–	4,832
Investment income	6	14,616	14,445
Interest payable	7	(4,856)	(6,960)
Profit on ordinary activities before taxation	1	45,535	23,073
Taxation on profit on ordinary activities	8	(13,903)	(7,443)
Profit on ordinary activities after taxation		31,632	15,630
Equity minority interests		(2,667)	3,106
Profit for the financial year		28,965	18,736
Preference dividends	10	(770)	(770)
Profit attributable to ordinary capital		28,195	17,966
Ordinary dividends	10	(10,201)	(9,252)
Profit for the financial year retained	24	£17,994	£8,714
Earnings per ordinary share after exceptional item	11	59.43p	37.87p
Earnings per ordinary share before exceptional item	11	50.61p	46.62p

The results for both years arise from continuing operations

RECOGNISED GAINS AND LOSSES
MOVEMENTS IN SHAREHOLDERS' FUNDS

Year to 31st May 2000

	2000 £000	1999 £000
Statement of total recognised gains and losses		
Profit for the financial year		
Group companies	28,965	16,056
Associated companies	-	2,680
	28,965	18,736
Currency retranslation		
Group companies	(7,474)	590
Associated companies	-	(2,400)
	(7,474)	(1,810)
Surplus on revaluation		
Group companies	-	13,118
Associated companies	-	8,496
	-	21,614
Reversal of taxation on Nigeria revaluation surplus - note 20	1,765	-
Total recognised gains and losses for the year	£23,256	£38,540

	2000 £000	1999 £000
Reconciliation of movement in shareholders' funds		
Total recognised gains and losses for the year	23,256	38,540
Dividends	(10,971)	(10,022)
Net increase in shareholders' funds	12,285	28,518
Opening shareholders' funds	245,038	216,520
Closing shareholders' funds	£257,323	£245,038

Note of historical cost profits and losses

Reported profit on ordinary activities before taxation	45,535	23,073
Realisation of property revaluation gains of previous years	-	1,216
Adjustment of depreciation to historical cost basis	1,222	267
	£46,757	£24,556
Historical cost profit on ordinary activities before taxation		
Historical cost profit for the year retained after taxation, minority interests and dividends	£18,755	£10,197

BALANCE SHEETS

31st May 2000

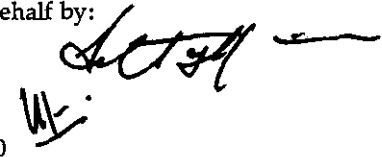
	Notes	The group		Parent company	
		2000 £000	1999 £000	2000 £000	1999 £000
Fixed assets					
Intangible assets	12	539	299	-	-
Tangible assets	13	179,873	149,378	-	-
Investments:					
Subsidiary companies	14	-	-	81,323	76,403
Associated companies	14	-	34,565	-	7,187
		<u>180,412</u>	<u>184,242</u>	<u>81,323</u>	<u>83,590</u>
Current assets					
Stocks	15	92,906	61,081	-	-
Debtors	16	56,142	62,403	54,311	59,955
Investments	17	102,388	69,665	43,474	36,427
Cash at bank and in hand		10,799	7,804	-	-
		<u>262,235</u>	<u>200,953</u>	<u>97,785</u>	<u>96,382</u>
Creditors - amounts falling due within one year	18	<u>(112,735)</u>	<u>(120,107)</u>	<u>(37,405)</u>	<u>(44,990)</u>
Net current assets		<u>149,500</u>	<u>80,846</u>	<u>60,380</u>	<u>51,392</u>
Total assets less current liabilities		<u>329,912</u>	<u>265,088</u>	<u>141,703</u>	<u>134,982</u>
Creditors - amounts falling due after one year	18	<u>(19,744)</u>	<u>(14,546)</u>	<u>(9,625)</u>	<u>-</u>
Provisions for liabilities and charges	20	<u>(7,718)</u>	<u>(1,830)</u>	<u>(195)</u>	<u>-</u>
Net assets	1	<u>£302,450</u>	<u>£248,712</u>	<u>£131,883</u>	<u>£134,982</u>
Capital and reserves					
Equity ordinary share capital	23	4,744	4,744	4,744	4,744
Non-equity preference share capital	23	7,898	7,898	7,898	7,898
Total called up share capital	23	12,642	12,642	12,642	12,642
Reserves attributable to equity interests:					
Revaluation reserve	24	46,911	46,656	-	-
Profit and loss account	24	197,770	185,740	119,241	122,340
Total shareholders' funds		<u>257,323</u>	<u>245,038</u>	<u>131,883</u>	<u>134,982</u>
Equity minority interests		<u>45,127</u>	<u>3,674</u>	<u>-</u>	<u>-</u>
		<u>£302,450</u>	<u>£248,712</u>	<u>£131,883</u>	<u>£134,982</u>

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

A. J. GREEN

C. N. GREEN

7th September 2000



GROUP CASH FLOW STATEMENT

Year to 31st May 2000

	Notes	2000 £000	1999 £000
Cash flow from operating activities	(i)	72,321	6,366
Returns on investments and servicing of finance	(ii)	6,604	7,864
Taxation		(9,124)	(6,701)
Capital expenditure and financial investment	(ii)	(6,869)	(25,019)
Acquisitions and disposals	(ii)	(5,133)	(1)
Equity dividends paid		(9,394)	(8,777)
Cash inflow/(outflow) before use of liquid resources and financing		48,405	(26,268)
Management of liquid resources	(ii)	(15,555)	37,738
Financing	(ii)	(24,119)	(11,637)
Increase/(decrease) in cash in the period		<u>£8,731</u>	<u>£(167)</u>
		2000 £000	1999 £000
Reconciliation of net cash flow to movement in net funds	(iii)		
Increase/(decrease) in cash in the period		8,731	(167)
Cash outflow from financing		24,119	11,637
Cash outflow/(inflow) from management of liquid resources		15,555	(37,738)
Change in net funds resulting from cash flows		48,405	(26,268)
Currency retranslation		29	701
Deposits and loans in former associate now consolidated as a subsidiary		8,263	-
Movement in net funds in the period		56,697	(25,567)
Opening net funds		28,926	54,493
Closing net funds		<u>£85,623</u>	<u>£28,926</u>

The notes to the cash flow statement are given in note 25

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.

Compliance with Financial Reporting Standard 2 "Accounting for Subsidiary Undertakings" requires departure from the requirements of the Companies Act 1985 relating to goodwill, and an explanation of the departure is given in note 27(iii).

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) Prior to the year ended 31st May 1999, goodwill, including negative goodwill and that arising on consolidation, 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.

(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.

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

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. Land and buildings are revalued at least every 5 years in accordance with Financial Reporting Standard 15 "Tangible Fixed Assets".

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.

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.

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.

NOTES ON THE ACCOUNTS

1 Segmental reporting

	Third party turnover		Profit before taxation		Net assets	
	2000 £000	1999 £000	2000 £000	1999 £000	2000 £000	1999 £000
Geographical areas - by origin						
Group companies						
Europe	203,482	247,104	12,752	13,512	108,305	137,951
Asia	84,660	86,010	3,895	1,019	54,856	52,705
Africa	120,932	24,183	13,149	2,517	88,458	16,404
	<u>409,074</u>	<u>357,297</u>	<u>29,796</u>	<u>17,048</u>	<u>251,619</u>	<u>207,060</u>
Share of associated companies						
Nigeria			-	4,832	-	34,565
	<u>£409,074</u>	<u>£357,297</u>	<u>29,796</u>	<u>21,880</u>	<u>251,619</u>	<u>241,625</u>
Investment income/investments			14,616	14,445	102,388	69,665
Interest payable/overdrafts & loans			(4,856)	(6,960)	(27,564)	(48,543)
			<u>39,556</u>	<u>29,365</u>	<u>326,443</u>	<u>262,747</u>
Exceptional item (note 3)			5,979	(6,292)		
			<u>£45,535</u>	<u>£23,073</u>		
Tax and dividends					(23,993)	(14,035)
					<u>£302,450</u>	<u>£248,712</u>

	Third party turnover		Inter-segment turnover		Total turnover	
	2000 £000	1999 £000	2000 £000	1999 £000	2000 £000	1999 £000
Turnover - by origin						
Europe	203,482	247,104	61,900	40,999	265,382	288,103
Asia	84,660	86,010	285	271	84,945	86,281
Africa	120,932	24,183	158	94	121,090	24,277
	<u>£409,074</u>	<u>£357,297</u>	<u>£62,343</u>	<u>£41,364</u>	<u>£471,417</u>	<u>£398,661</u>

	Third party turnover	
	2000 £000	1999 £000
Turnover - by destination		
Europe	196,291	191,966
Asia	91,131	87,582
Africa	121,652	77,749
	<u>£409,074</u>	<u>£357,297</u>

1 Segmental reporting continued

From the current year, segmental analysis is provided for three geographical segments – Europe, Asia and Africa – as the directors consider that this more fairly reflects the group's commercial trading segments. Prior year figures for United Kingdom, Western and Eastern Europe have been restated accordingly and were respectively as follows: turnover by origin £146.1m, £35.1m and £65.9m, turnover by destination £86.5m, £37.6m and £67.8m, profit before taxation £11.3m, £3.1m and £(1.0)m.

In addition, analysis by class of business is no longer provided, as the directors consider the major part of the group's business to be in one sector; the manufacture and distribution of personal and household cleansing products. Prior year figures for the 'Food and others' segment were as follows; turnover £41.7m and profit before taxation £4.1m.

2 Turnover and operating profit

Analysis of turnover and operating profit

	Group companies excluding Nigeria		Nigeria	Total	Total
	2000	2000	2000	2000	1999
	£000	£000	£000	£000	£000
Turnover – third parties	307,804	101,270	409,074	304,057	
Turnover – associated companies	–	–	–	53,240	
Total turnover	307,804	101,270	409,074	357,297	
Cost of sales	(176,968)	(77,548)	(254,516)	(232,887)	
Gross profit	130,836	23,722	154,558	124,410	
Selling & distribution expenses	(76,457)	(7,429)	(83,886)	(72,818)	
Administration expenses	(35,831)	(5,045)	(40,876)	(40,836)	
	£18,548	£11,248	29,796	10,756	
Other operating income			5,979	–	
			£35,775	£10,756	

Note: The figures for 1999 include the exceptional charge of £6,292,000 allocated to cost of sales (£5,177,000) and selling and distribution expenses (£1,115,000).

Operating profit

	2000	1999
	£000	£000
Is after charging/(crediting):		
Depreciation	16,191	12,077
Amortisation of goodwill	22	8
Profit on disposal of tangible fixed assets	(686)	(1,569)
Government grants	(431)	(194)
Research and development	3,192	4,091
Auditors' remuneration – audit fees	379	334
– other services	66	66
Exceptional (income)/charge (note 3)	(5,979)	6,292

3 Exceptional item

As discussed in the operating and financial review, exceptional income arising on the recognition of technical fees and royalties due from the Nigerian companies is included within operating profit in the current year. The effect of the current and prior year exceptional items on retained profit is shown below:

	2000	1999
	£000	£000
Exceptional income/(charge) before taxation	5,979	(6,292)
Taxation	(1,794)	-
Minority share	-	2,138
	£4,185	£(4,154)

The 1999 exceptional charge was in relation to restructuring of the group's operations in China.

4 Staff numbers and costs

The average number employed by the group, including directors, within each category was:

	2000	1999
	Number	Number
Production	6,904	3,299
Selling and distribution	2,271	1,448
Administration	1,622	1,069
	10,797	5,816

The costs incurred in respect of the above were:

	£000	£000
Wages and salaries	46,658	41,680
Social security and other costs	5,882	5,780
Pension costs	1,463	1,290
	£54,003	£48,750

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 on pages 11 and 12 and form part of these financial statements.

6 Investment income

	2000	1999
	£000	£000
Current asset investment income:		
Listed investments	13,695	6,273
Unlisted investments	-	7,129
Deposit interest	1,447	1,344
Provisions increased	(526)	(301)
	£14,616	£14,445

7 Interest payable

Bank loans and overdrafts	£4,856	£6,960
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NOTES ON THE ACCOUNTS continued

8 Taxation on profit on ordinary activities	2000		1999	
	£000	£000	£000	£000
United Kingdom corporation tax at 30% (1999 - 30.833%)	7,241		6,025	
Adjustments in respect of prior periods	308		(1,579)	
	7,549		4,446	
Double taxation relief	(3,320)		(1,256)	
		4,229		3,190
Overseas taxation	7,087		2,339	
Adjustments in respect of prior periods	666		(118)	
		7,753		2,221
Deferred taxation	229		664	
Adjustments in respect of prior periods	(102)		345	
		127		1,009
Associated companies taxation		-		1,023
Taxation on exceptional item		1,794		-
		£13,903		£7,443

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 £7,872,000 (1999 - £15,824,000)

10 Dividends

	2000	1999
	£000	£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 6.15p per share (1999 - 5.85p)	2,918	2,776
Proposed final at 15.35p per share payable 7th November 2000 (1999 - 13.65p)	7,283	6,476
	£10,201	£9,252
Total dividends	£10,971	£10,022

11 Earnings per ordinary share

Two calculations of earnings per share are presented to reflect the impact of the exceptional items. The following calculations are based on 47,444,568 ordinary and 'A' ordinary shares in issue throughout the two years:

	2000	1999
	£000	£000
Profit attributable to ordinary capital:		
After exceptional item	28,195	17,966
Effect of exceptional item (note 3)	(4,185)	4,154
Before exceptional item	<u>£24,010</u>	<u>£22,120</u>
	per share	per share
Earnings attributable to ordinary capital:		
After exceptional item	59.43p	37.87p
Effect of exceptional item (note 3)	(8.82)p	8.75p
Before exceptional item	<u>50.61p</u>	<u>46.62p</u>

There are no dilutive potential ordinary shares therefore basic and diluted earnings per share are identical.

12 Intangible fixed assets

	Goodwill
	£000
The group	
Cost	
At 31st May 1999	307
Additions	262
At 31st May 2000	<u>£569</u>
Amortisation	
At 31st May 1999	8
Charge for the year	22
At 31st May 2000	<u>£30</u>
Net book values	
At 31st May 2000	<u>£539</u>
At 31st May 1999	<u>£299</u>

Additions in the year arose as a result of an increase in the group's interest in the companies in Nigeria and China. The goodwill is being amortised on a straight line basis over a period of 20 years which is considered to be its useful economic life.

13 Tangible fixed assets

The group	Land and buildings	Plant and machinery	Fixtures, fittings, vehicles	Assets in course of construction	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 31st May 1999	72,930	111,083	20,118	10,498	214,629
Currency retranslation	(2,475)	(3,738)	(258)	(281)	(6,752)
Consolidation of Nigerian companies	36,253	8,540	1,964	3,140	49,897
Additions	608	3,921	2,849	3,264	10,642
Disposals	(716)	(3,488)	(2,857)	-	(7,061)
Reclassifications	1,961	11,158	285	(13,404)	-
At 31st May 2000	<u>£108,561</u>	<u>£127,476</u>	<u>£22,101</u>	<u>£3,217</u>	<u>£261,355</u>
Depreciation					
At 31st May 1999	1,409	51,042	12,800	-	65,251
Currency retranslation	(71)	(805)	(162)	-	(1,038)
Consolidation of Nigerian companies	-	3,710	1,342	-	5,052
Charge for the year	2,500	10,234	3,457	-	16,191
Disposals	(185)	(1,484)	(2,305)	-	(3,974)
At 31st May 2000	<u>£3,653</u>	<u>£62,697</u>	<u>£15,132</u>	<u>-</u>	<u>£81,482</u>
Net book values					
At 31st May 2000	<u>£104,908</u>	<u>£64,779</u>	<u>£6,969</u>	<u>£3,217</u>	<u>£179,873</u>
At 31st May 1999	<u>£71,521</u>	<u>£60,041</u>	<u>£7,318</u>	<u>£10,498</u>	<u>£149,378</u>
				The group	
				2000	1999
				£000	£000
Land and buildings					
Cost or valuation					
Freehold land				13,071	13,171
Freehold buildings				26,436	26,689
Long leasehold				52,029	25,813
Short leasehold				17,025	7,257
				<u>£108,561</u>	<u>£72,930</u>
Accumulated depreciation					
Freehold buildings				1,926	1,393
Long leasehold				1,078	-
Short leasehold				649	16
				<u>£3,653</u>	<u>£1,409</u>
Land and buildings at cost or valuation are stated:					
At open market valuation 1989				290	304
At open market valuation 1994				3,800	7,457
At open market valuation 1998				7,314	8,009
At open market valuation 1999				95,025	51,206
At cost				2,132	5,954
				<u>£108,561</u>	<u>£72,930</u>

13 Tangible fixed assets continued

The majority of the group's properties were revalued at 31st May 1999 by Knight Frank, international property consultants, on the basis of open market value subject to existing use. Nigerian land and buildings, also valued by Knight Frank at 31st May 1999, were consolidated from 1st June 1999. The properties included at valuation as at 31st May 1998 are the group properties in Australia, valued by JLW Advisory Services, corporate property consultants, which under a requirement of Australian corporations law are revalued every three years. The directors are not aware of any material change in the value of revalued properties during the year. Land and buildings shown at cost represent additions since the previous revaluations.

All other tangible fixed assets are stated at cost.

	The group	
	2000	1999
	£000	£000
If stated under historical cost principles the comparable amounts for the total of land and buildings would be:		
Cost	53,864	50,949
Accumulated depreciation	9,764	8,506
Historical cost net value	<u>£44,100</u>	<u>£42,443</u>
Future capital expenditure		
Commitments placed at year-end	<u>£2,672</u>	<u>£1,498</u>

14 Subsidiary companies

	Shares	Loans	Total
	£000	£000	£000
Parent company			
Cost at 31st May 1999	84,423	4,384	88,807
Consolidation of Nigerian companies (i)	7,187	-	7,187
Additions in the year (ii)	2,645	-	2,645
Cost at 31st May 2000	<u>£94,255</u>	<u>£4,384</u>	<u>£98,639</u>
Provisions at 31st May 1999	12,404	-	12,404
Provided in the year	4,912	-	4,912
Provisions at 31st May 2000	<u>£17,316</u>	<u>-</u>	<u>£17,316</u>
Net book value at 31st May 2000	<u>£76,939</u>	<u>£4,384</u>	<u>£81,323</u>
Net book value at 31st May 1999	<u>£72,019</u>	<u>£4,384</u>	<u>£76,403</u>

Details of principal group companies are given in note 28

- (i) At 31st May 1999, the group's investment in the Nigerian associated companies of £34,565,000 was made up of £7,187,000 cost of shares and £27,378,000 share of reserves. Following consolidation of the Nigerian companies, these balances are reclassified to subsidiary companies.
- (ii) During the year further capital was invested in the subsidiaries in Nigeria and India, and by intermediate holding companies in the subsidiaries in China and Indonesia.

NOTES ON THE ACCOUNTS continued

15 Stocks

	The group		Parent company	
	2000 £000	1999 £000	2000 £000	1999 £000
Raw materials and consumables	52,224	28,221	-	-
Work in progress	5,916	4,500	-	-
Finished goods and goods for resale	34,766	28,360	-	-
	<u>£92,906</u>	<u>£61,081</u>	<u>-</u>	<u>-</u>

16 Debtors

Trade debtors	39,898	41,117	-	-
Amounts owed by group companies	-	-	49,042	55,543
Amounts owed by associated companies	-	2,345	-	1,226
United Kingdom taxation recoverable	-	531	-	-
Overseas taxation recoverable	1,051	687	-	-
Other debtors, including deposits	4,823	8,946	10	10
Prepayments and accrued income	6,146	6,260	1,035	890
Pension fund prepayment	4,224	2,286	4,224	2,286
Deferred taxation (note 21)	-	231	-	-
	<u>£56,142</u>	<u>£62,403</u>	<u>£54,311</u>	<u>£59,955</u>
Included above, but falling due after more than one year:				
Other debtors	10	216	-	-
Prepayments and accrued income	8	-	-	-
Pension fund prepayment	4,224	2,286	4,224	2,286
Deferred taxation (note 21)	-	231	-	-
	<u>£4,242</u>	<u>£2,733</u>	<u>£4,224</u>	<u>£2,286</u>

17 Current asset investments

At cost less amounts written off:

Listed	18,503	25,423	9,883	17,395
Unlisted	195	456	195	36
Deposits	83,690	43,786	33,396	18,996
	<u>£102,388</u>	<u>£69,665</u>	<u>£43,474</u>	<u>£36,427</u>
Market value of listed investments	<u>£28,862</u>	<u>£38,667</u>	<u>£16,816</u>	<u>£28,622</u>

If the listed investments had been realised at 31st May 2000 at market value, there would have been a liability to taxation estimated at £2,918,000 (1999 - £2,595,000) of which £1,772,000 relates to the parent company (1999 - £2,322,000)

NOTES ON THE ACCOUNTS continued

18 Creditors	The group		Parent company	
	2000 £000	1999 £000	2000 £000	1999 £000
Due within one year				
Bank loans and overdrafts (note 19)	27,564	43,586	4,817	14,585
Trade creditors	27,456	28,700	-	-
Amounts owed to group companies	-	-	22,388	22,440
Amounts owed to associated companies	-	572	-	-
United Kingdom corporation tax	9,539	7,653	1,783	1,311
Overseas income tax	6,309	851	370	-
Other taxation and social security	4,014	2,983	-	-
Other creditors	10,194	11,263	17	18
Accruals and deferred income	20,376	18,023	747	160
Proposed dividends	7,283	6,476	7,283	6,476
	<u>£112,735</u>	<u>£120,107</u>	<u>£37,405</u>	<u>£44,990</u>
Due after one year				
Bank loans (note 19)	-	4,957	-	-
Overseas income tax	-	504	-	-
Other creditors	1,478	615	-	-
Accruals and deferred income	3,921	4,099	-	-
Pension fund accrual	4,720	4,371	-	-
Pension fund deferred income (note 22)	9,625	-	9,625	-
	<u>£19,744</u>	<u>£14,546</u>	<u>£9,625</u>	<u>-</u>
19 Bank loans and overdrafts				
Bank loans and overdrafts due within one year	27,564	43,586	4,817	14,585
Bank loans, due after one year, are repayable:				
Between one and two years	-	4,957	-	-
	<u>£27,564</u>	<u>£48,543</u>	<u>£4,817</u>	<u>£14,585</u>

The interest rate profile of borrowings is given in note 26.

20 Provisions for liabilities and charges

	Deferred taxation (note 21) £000	Pensions and similar obligations £000	Others £000	Total £000
The group				
At 31st May 1999	-	968	862	1,830
Included in debtors at 31st May 1999 (note 16)	(231)	-	-	(231)
Currency retranslation	(57)	(64)	47	(74)
Consolidation of Nigerian companies	5,555	-	2,238	7,793
Reversal of deferred taxation on revaluation surplus*	(3,481)	-	-	(3,481)
Profit and loss account	127	(130)	2,188	2,185
Utilised during the year	-	-	(304)	(304)
At 31st May 2000	<u>£1,913</u>	<u>£774</u>	<u>£5,031</u>	<u>£7,718</u>
Parent company				
At 31st May 1999	-	-	-	-
Profit and loss account	195	-	-	195
At 31st May 2000	<u>£195</u>	<u>-</u>	<u>-</u>	<u>£195</u>

* The accounts of the Nigerian companies, previously treated as associates, included provisions for deferred taxation on the property revaluation surpluses. On consolidation of the Nigerian companies, these provisions have been reversed - the group's share of the reversal is £1,765,000.

21 Deferred taxation

	The group		Parent company	
	2000 £000	1999 £000	2000 £000	1999 £000
Dealt with in the accounts:				
Tangible fixed assets	7,111	4,951	-	-
Other timing differences	(5,198)	(5,182)	195	-
	<u>£1,913</u>	<u>£(231)</u>	<u>£195</u>	<u>-</u>
Not dealt with in the accounts:				
Tangible fixed assets	<u>£4,854</u>	<u>£4,812</u>	<u>-</u>	<u>-</u>

22 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%.

For the United Kingdom staff plan, a refund of surplus was paid to the company on 10th March 2000. The amount of the refund after tax was £10,242,000 and was provided as part of an overall pensions package that included benefit improvements for the plan members. The overall package was designed to bring the funding of the staff plan to within the limits prescribed by the Pension Scheme Surpluses (Valuation) Regulations 1987. The next formal actuarial assessment of the staff plan, and the two other United Kingdom plans, is due as at 1st June 2000 and this will take into account the full impact of the pensions package.

22 Pensions and retirement benefits continued

The net refund has not been taken to the profit and loss account for the current period but is being credited over the remaining estimated service lives of the existing employees.

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. In addition, certain overseas subsidiaries provide for lump sum benefits payable on retirement, or date of leaving if earlier. These amounts are provided based on number of years service and are included within other provisions in note 20.

The total pension charge for the group for the year to 31st May 2000 amounted to £1,463,000 (1999 – £1,290,000) This comprised a regular charge of £4,001,000 (1999 – £3,382,000) reduced by the credit for past service surpluses of £2,538,000 (1999 – £2,092,000)

23 Called up share capital

	2000		1999	
	Number 000	Amount £000	Number 000	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
	<u>50,000</u>	<u>£5,000</u>	<u>50,000</u>	<u>£5,000</u>
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
	<u>8,300</u>	<u>£8,300</u>	<u>8,300</u>	<u>£8,300</u>
Total authorised share capital		<u>£13,300</u>		<u>£13,300</u>
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
	<u>47,444</u>	<u>£4,744</u>	<u>47,444</u>	<u>£4,744</u>
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
	<u>7,898</u>	<u>£7,898</u>	<u>7,898</u>	<u>£7,898</u>
Total called up share capital		<u>£12,642</u>		<u>£12,642</u>

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	Profit & loss account £000	Total £000	
The group and associated companies				
At 31st May 1999	46,656	185,740	232,396	
Currency retranslation	(1,510)	(5,964)	(7,474)	
Profit for the financial year retained	-	17,994	17,994	
Reversal of deferred taxation on revaluation surplus (note 20)	1,765	-	1,765	
	<u>£46,911</u>	<u>£197,770</u>	<u>£244,681</u>	
Parent company				
At 31st May 1999		122,340	122,340	
Loss for the financial year retained		(3,099)	(3,099)	
		<u>£119,241</u>	<u>£119,241</u>	
	Parent company £000	Sub- sidiaries £000	Associated companies £000	Total £000
Total reserves				
At 31st May 1999	122,340	82,678	27,378	232,396
Currency retranslation	-	(7,474)	-	(7,474)
Consolidation of Nigerian companies (note 14)	-	27,378	(27,378)	-
(Loss)/profit for the financial year retained	(3,099)	21,093	-	17,994
Reversal of deferred taxation on revaluation surplus (note 20)	-	1,765	-	1,765
	<u>£119,241</u>	<u>£125,440</u>	<u>-</u>	<u>£244,681</u>

Note:

The cumulative goodwill written off against group reserves is £10,691,000 (1999 - £10,691,000).

25 Notes on the group cash flow statement	2000 £000	1999 £000
(i) Reconciliation of operating profit to operating cash flows		
Operating profit	35,775	10,756
Amortisation of goodwill	22	8
Depreciation and adjustments on disposals	15,505	13,944
Provisions	1,754	(2,669)
Stocks	16,893	(5,897)
Debtors	8,527	(1,228)
Creditors	(6,155)	(8,548)
Net cash flow from operating activities	£72,321	£6,366
 (ii) Analysis of amounts shown net in the cash flow statement		
Returns on investments and servicing of finance		
Investment income received	13,759	14,349
Interest paid	(4,916)	(5,706)
Preference dividends paid to PZ plc shareholders	(770)	(770)
Dividends paid to minority shareholders in subsidiary companies	(1,469)	(9)
Net cash inflow for returns on investments and servicing of finance	£6,604	£7,864
 Capital expenditure and financial investment		
Purchase of tangible fixed assets	(10,642)	(30,946)
Sale of tangible fixed assets	3,773	5,927
Net cash outflow for capital expenditure and financial investment	£(6,869)	£(25,019)
 Acquisitions and disposals		
Purchase of interests in subsidiaries – note 27(iii)	(1,603)	(10)
Cash contributed by minority shareholders	2,154	160
Net overdraft in former associate now consolidated as a subsidiary	(5,684)	–
Purchase of interests in associates	–	(151)
Net cash outflow for acquisitions and disposals	£(5,133)	£(1)
 Management of liquid resources		
Net increase in short term deposits	(22,736)	(2,505)
Purchase of current asset investments	(25,861)	(11,154)
Sale of current asset investments	33,042	51,397
Net cash (outflow)/inflow from management of liquid resources	£(15,555)	£37,738
 Financing		
Net decrease in short term borrowing	(24,119)	(11,624)
Repayment of loans	–	(13)
Net cash outflow from financing	£(24,119)	£(11,637)

25 Notes on the group cash flow statement continued

(iii) Analysis of net funds

	At 31st May 1999 £000	Cash flow £000	Deposits and loans in former associate £000	Other non-cash movement £000	Exchange difference £000	At 31st May 2000 £000
Cash in hand and at bank	7,804	3,018	-	-	(23)	10,799
Overdrafts	(16,503)	5,713	-	-	219	(10,571)
		8,731				
Loans due within one year	(27,083)	24,119	(8,498)	(4,544)	(987)	(16,993)
Loans due after one year	(4,957)	-	-	4,544	413	-
		24,119				
Deposits	43,786	22,736	16,761	-	407	83,690
Other current asset investments	25,879	(7,181)	-	-	-	18,698
		15,555				
	£28,926	£48,405	£8,263	-	£29	£85,623

26 Currency and interest rate profile of net funds

As at 31st May 2000, 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	60,204	8,513	(945)	-	67,772
Other European currencies	4,472	2,702	(3,022)	(2,562)	1,590
US dollar	17,743	6,417	(6,076)	-	18,084
Other	12,070	1,066	(14,959)	-	(1,823)
Total	£94,489	£18,698	£(25,002)	£(2,562)	£85,623

The corresponding figures as at 31st May 1999 were as follows:

	Cash and deposits £000	Listed and unlisted investments £000	Floating rate borrowings £000	Fixed rate borrowings £000	Total £000
Sterling	31,284	7,213	(2,109)	-	36,388
Other European currencies	3,066	6,078	(11,057)	(2,793)	(4,706)
US dollar	12,672	12,451	(18,218)	-	6,905
Other	4,568	137	(14,366)	-	(9,661)
Total	£51,590	£25,879	£(45,750)	£(2,793)	£28,926

26 Currency and interest rate profile of net funds

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 borrowings bear interest, in the main, with reference to the relevant national LIBOR equivalents.

At 31st May 2000, the weighted average interest rate applicable to the fixed rate borrowings was 7.92% (31st May 1999 – 10.51%). The weighted average period for which the interest rate was fixed was 3.6 years (31st May 1999 – 3.6 years).

The maturity profile of borrowings is given in note 19.

At 31st May 2000, the group had undrawn committed overdraft facilities of £142m (31st May 1999 – £91m) available to it and subject to annual review.

As discussed in the operating and financial review, the group's main foreign currency exposure relates to US dollar monetary assets. At 31st May 2000, the group had a net dollar asset position of £21.7m (31st May 1999 – £10.9m). 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 2000, 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.

27 Impact of consolidation of Nigerian companies

	Group companies			
	excluding Nigeria	Nigeria	Total	Total
	2000	2000	2000	1999
	£000	£000	£000	£000
(i) Balance sheet as at 31st May 2000				
Fixed assets	135,701	44,711	180,412	184,242
Current assets				
Stocks	41,767	51,139	92,906	61,081
Debtors	52,678	3,464	56,142	62,403
Investments	87,920	14,468	102,388	69,665
Cash at bank and in hand	8,868	1,931	10,799	7,804
	191,233	71,002	262,235	200,953
Creditors (due within one year)				
Bank loans and overdrafts	(18,696)	(8,868)	(27,564)	(43,586)
Other	(73,975)	(11,196)	(85,171)	(76,521)
	(92,671)	(20,064)	(112,735)	(120,107)
Net current assets	98,562	50,938	149,500	80,846
Total assets less current liabilities	234,263	95,649	329,912	265,088
Creditors (due after one year)	(19,018)	(726)	(19,744)	(14,546)
Provisions for liabilities and charges	(1,591)	(6,127)	(7,718)	(1,830)
Net assets	£213,654	£88,796	£302,450	£248,712
(ii) Net cash flow from operating activities				
Operating profit	24,527	11,248	35,775	10,756
Amortisation of goodwill	21	1	22	8
Depreciation and adjustments on disposals	12,736	2,769	15,505	13,944
Provisions	347	1,407	1,754	(2,669)
Stocks	16,648	245	16,893	(5,897)
Debtors	8,931	(404)	8,527	(1,228)
Creditors	(7,043)	888	(6,155)	(8,548)
Net cash flow from operating activities	£56,167	£16,154	£72,321	£6,366

(iii) Goodwill

To increase the group's holding to over 50%, shares were acquired at a cost of £1,603,000 - note 25(ii) - generating goodwill of £11,000 on net assets acquired of £1,592,000. The directors consider that the book value of assets acquired represents fair value. The Companies Act 1985 requires the calculation of goodwill to be performed once at the date control passes. However, in accordance with Financial Reporting Standard 2 "Accounting for Subsidiary Undertakings" the goodwill arising on the consolidation of the Nigerian companies has been calculated on a piecemeal basis with the cost of the shares compared with the related share of net assets at fair value when acquired. This applies UITF abstract 7 "True and fair view override disclosures" as the piecemeal basis results in goodwill of £11,000, compared with a capital reserve of £25.9m generated by the one stage calculation which would be unrepresentative of the increase in holding.

(iv) The profit after tax of the Nigerian companies for the year ended 31st May 2000 is £6,133,000 (1999 - £5,547,000)

28 Principal group companies

Parent company		Incorporated in:	Parent company's interest
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 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	†70%
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%
Hong Kong			
Cussons Toiletries (China) Ltd.	Distribution of soaps and toiletries.	Hong Kong	†100%

NOTES ON THE ACCOUNTS continued

28 Principal group companies continued

		Incorporated in:	Parent company's interest
India			
Cussons India Private Ltd.	Distribution of soaps and toiletries.	India	*100%
Indonesia			
P.T. Cussons Indonesia	Manufacture of soaps and toiletries.	Indonesia	†100%
P.T. Cussons Distributor Indonesia	Distribution of soaps and toiletries.	Indonesia	†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%
Nigeria			
Paterson Zochonis Industries plc	Manufacture of soaps, detergents, toiletries, perfumery, cosmetics, pharmaceutical products, confectionery, refrigerators and air conditioners.	Nigeria	*51%
Paterson Zochonis Nigeria plc	Merchandising of imported and locally manufactured goods.	Nigeria	†51%
Ekopak Nigeria plc	Packaging manufacture.	Nigeria	†51%
Roberts Pharmaceuticals Ltd.	Manufacture of pharmaceutical products.	Nigeria	†51%
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.