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PZ Cussons operates in Africa, Asia and Europe with its strategy built on three core principles

We operate in **selected markets** that have the potential for future growth, both in mature and emerging markets. Our presence across Africa, Asia and Europe ensures a naturally balanced portfolio of global markets, which we continually review to ensure they provide the Group with the best opportunities for profitable growth. We take pride in our knowledge of local markets which enables us to respond quickly and appropriately to local needs.

We develop **leading brands** for the markets in which we operate. Whilst some have global reach, the majority of our brands are sold only in local and regional markets as we create products that are particularly suited to local needs and tastes. Our strategy is to grow these brands so they achieve category leading positions in their markets and we continually review and expand the categories in which we operate to ensure profitable growth. We are proud of our portfolio of category leading brands which are developed to satisfy the particular needs of local consumers.

We operate **first class distribution** networks that enable us to deliver our brands quickly and efficiently to our local consumers. Our distribution systems vary by market type, from traditional supply chain models in mature markets to extensive nationwide depot networks in emerging markets. We continually adapt our methods of distribution to suit our local markets and to changing market needs. We take pride in our flexible distribution capability which is tailored specifically for the local market.

2005

Operating profit*
of £53.5 million

2006

Operating profit*
of £60.2 million

2007

Operating profit*
of £66.2 million

* Before exceptional items (see note 1 for definition)

I am pleased to advise shareholders that 2007 has been another year of considerable progress for the Group with operating profit before exceptional items reaching £66.2 million, an increase of 10%

This successful result has been achieved despite the challenging trading conditions with the weak US dollar and higher raw material costs impacting the business

Highlights in the year have been as follows

- Strong trading performance particularly in Nigeria and all European units
- Significant growth in our white goods business with Haier in Nigeria with further expansion of the product range
- Significant growth in our nutrition joint venture with Glanbia in Nigeria with successful new product launches
- The opening of the first Nigerian world class standard electrical retail superstore HT Cool World opened in Lagos showcasing the range of quality Haier Thermocool brand electrical appliances
- No. 1 position achieved in personal wash category in UK following successful brand renovation programme
- Successful roll-out of the Charles Worthington haircare brand into the UK nationwide trade
- Construction commenced of a new £26m Innovation Centre in Manchester, incorporating a liquids manufacturing facility, a Fragrance Development Centre and a Research and Development Centre

At a corporate level, the share split of ten for one was approved at the 2006 annual general meeting and has helped to improve the liquidity of the company's shares

As advised in the interim statement, Costas Nicoloulas, Phil Smyth and Rod Sellers retired on 31st May 2007

Costas Nicoloulas, who retired after 37 years with the Group, joined the board in June 2000 as a regional director. His substantial contribution to our operations in both Africa and the Pacific has played a great part in our recent growth and I wish him a long and enjoyable retirement.

Phil Smyth, who joined the board in June 1998, has held the position of regional director Europe and more recently technical director. His experience and valuable contribution will be missed and I wish him and his wife Emma, a long and happy retirement.

Rod Sellers joined the board in January 2001 as a non-executive director. Aside from his chairing of the audit committee his advice, especially in financial matters, has been invaluable and greatly appreciated.

On 1st January this year, I was delighted to welcome Professor John Arnold to the board as non-executive director. John was previously Dean of Manchester Business School and has been President of the Institute of Chartered Accountants in Manchester.

The Group's strategic focus remains on continued growth and margin improvement in our selected markets. The success that we have achieved is the result of the hard work and dedication of all our staff throughout the PZ Cussons Group. I should like to thank all of them very much indeed.



Anthony J Green | Chairman

United Kingdom

Managing Director

Chris How

Employees 269

Location Head office in Manchester

Activities Manufacture and marketing of soaps toiletries and household products

Poland

Managing Director

Stephen Murphy

Employees 436

Location Head office in Warsaw

Activities Manufacture and marketing of detergents, soaps and toiletries

Greece

Managing Director

George Kostianis

Employees 191

Location Head office in Athens

Activities Manufacture and marketing of olive oils margarine cooking fats and spreads

Ghana

Managing Director

Meletis Glentzes

Employees 615

Location Head office in Tema

Activities Manufacture and marketing of soaps toiletries, cosmetics pharmaceuticals electrical goods and nutritional products

Nigeria

Chief Executive

Panos Varelas

Managing Directors

Christos Giannopoulos

(Soaps and detergents)

Ray Murphy (Health and beauty)

Tolis Loizos (HPZ)

Con Gendis (Nutricima)

Adewale Raji (Distribution)

Employees 4 680

Locations Head office in Lagos manufacturing units in Ilupeju Ikorodu and Aba

Activities Manufacture and marketing of soaps detergents health and beauty products electrical goods and nutritional products

Kenya

Managing Director

George Sotiropoulos

Employees 370

Location Head office in Nairobi

Activities Manufacture and marketing of soaps toiletries medicaments and household products

Group structure

The PZ Cussons Group operates in Africa, Asia and Europe, in both mature and emerging markets

United Arab Emirates

Country Manager

Huw Morris

Employees 14

Location Head office in Jebel Ali Freezone of Dubai

Activities Marketing and distribution of soaps and toiletries

Thailand

Managing Director

Richard Shepherd

Employees 765

Location Head office in Bangkok

Activities Manufacture and marketing of soaps, toiletries and dishwashing liquids

Indonesia

Managing Directors

Panos Mouchteros and

Dimitri Papadimitriou

Employees 2 290

Location Head office in Jakarta

Activities Manufacture and marketing of soaps, toiletries, baby products, powders, shampoos and lotions

Australia

Managing Director

George Fatouros

Employees 276

Location Head office in Melbourne

Activities Manufacture and marketing of household detergents, bar soaps and toiletries

The directors submit their report and the audited financial statements of the Group for the year ended 31st May 2007

This year's Highlights[†] at a glance

Revenue increased by 7% to £577.9m from £539.9m

Operating profit* increased by 10% to £66.2m from £60.2m

Profit before tax before exceptional items increased by 7% to £68.3m from £63.6m

Profit before tax after exceptional items increased by 11% to £67.9m from £61.2m

Adjusted basic EPS* increased by 10% to 9.78p from 8.90p

A net operating charge of £0.4m (2006: £2.4m) for exceptional items

Net funds** at 31st May 2007 increased to £60.3m from £51.9m

Proposed dividend increase for the year of 10% to 4.27p from 3.88p

Investment in a new UK liquids factory and further expansion of the Nigeria milk joint venture

Ten for one share split

[†]The purpose of these financial highlights and following business reviews are to help stakeholders understand how management analyse the development, performance and position of the Group. In preparing the financial highlights and business reviews, the directors have not sought to comply with the ASB's 2006 Reporting Statement on OFRs.

*Before exceptional items

**Net funds above and hereafter is defined as cash, short-term deposits and current asset investments less borrowings

Revenue (£m)	2007	2006
Africa	252.9	211.8
Asia	107.2	113.9
Europe	217.8	214.2
Total	577.9	539.9

Operating profit (£m)*	2007	2006
Africa	26.1	25.1
Asia	9.8	12.5
Europe	30.3	22.6
Total	66.2	60.2

Net funds (£m)	2007	2006
Cash at bank and in hand	21.2	25.9
Deposits	32.1	39.9
Current asset investments	12.8	2.2
Overdrafts	(3.2)	(11.9)
Loans due within one year	(2.6)	(2.1)
Loans due after one year	-	(2.1)
Net funds	60.3	51.9

Financial performance – overview

Operating profit before exceptional items rose by 10% to £66.2 million (2006 £60.2 million) on revenue up 7% to £577.9 million (2006 £539.9 million). Overall, strong trading performance, particularly in Nigeria and in all European units, has countered the impact of the weak US dollar and continued increases in the price of certain commodities.

Mature markets

In the European units, successful brand development has resulted in improved market shares in the core product categories and consequently higher turnover and profitability versus the prior year. In Australia, margins have been impacted by a highly competitive detergent market, although a strong new product pipeline provides a solid base from which to grow.

Emerging markets

The Group's main market, Nigeria, has continued to experience strong growth, particularly from the newer product categories of electrical goods and nutrition, although a weak US dollar has impacted sterling margins. The Group's other key emerging market, Indonesia, has grown turnover and profitability versus the prior year through successful development of the baby care range.

Financial highlights continued

Financial position – overview

The Group's balance sheet remains strong with net funds at 31st May 2007 of £60.3 million (2006: £51.9 million). Improvements in the Group's supply chain, particularly in Nigeria, have benefited net working capital levels. This has resulted in higher cash generated from operations and enabled Group net funds to be maintained at a similar level to the prior year.

Key performance indicators

In terms of performance, the Group targets its regions on delivery of operating profit in absolute terms as well as delivering ongoing improvement in operating margins. Margin improvement initiatives continue in all markets to counter further cost increases and the impact of the weak dollar.

In terms of cashflow, the Group targets its operating units on delivery of cashflows in absolute terms as well as improvements in working capital measures. This is to offset ongoing pressure on working capital due to growth across all businesses.

Major projects

Updates on major projects are as follows:

In the UK, as announced last year, the Group is constructing a new, purpose-built liquids factory to provide additional capacity to meet

the long-term supply needs of our growing UK business. In March 2007, the Group announced that the scope of this project was being extended to cover construction of a new Innovation Centre that will become the 'Personal Wash Centre of Excellence' for the Group. The Centre will incorporate the new manufacturing facility, a new Research and Development Centre and a Fragrance Development Centre. The new Centre will open in mid 2008 and costs of the total project are estimated at £26 million, which should largely be funded by the proceeds from the planned sale of the UK factory sites in Nottingham, Manchester and Ellesmere Port.

In Nigeria, as previously announced, the current milk factory is being extended and a second factory is planned for the manufacture of further nutritional products. Construction of the current factory extension, which will provide further capacity for the production of powdered and evaporated milk, is on schedule with the increased capacity expected to come on stream at the end of 2007. The scope and design of the second factory has now been finalised and construction will commence later this year with completion scheduled for early 2009. The Group's share of the cost of both projects will be approximately £10 million in aggregate.

Exceptional items***

Exceptional items in the year totalled to a net charge of £0.4 million to operating profit in the consolidated income statement comprising the following

Operating costs of £5.1 million in relation to a restructuring of the UK business, made up of redundancy and other associated restructuring costs

Operating income of £5.2 million from the sale of the Polish head office in Warsaw, and a net loss of £0.5 million in relation to the sale of the Cameroun business

Taxation

The effective tax rate before exceptional items was consistent with the previous year at 29.0% (2006: 29.2%)

Dividend

The board is recommending a dividend increase of 10.0% for the year with a proposed final dividend of 3.27p (2006: 2.95p) per share for a total of 4.27p (2006: 3.88p)

Share split

The share split of ten shares per one share previously in issue was approved at the 2006 annual general meeting and therefore all figures affected have been restated accordingly

Outlook

The Group's focus on selected markets leading brands and first class distribution continues to provide a clear strategy for the future. Over the next year, the Group will be pursuing growth in all existing businesses and investigating further exciting new opportunities

Nigeria remains our key market for future growth and we are encouraged by the continued stable economic and political climate following the recent elections

The weak dollar and continuing cost increases of a large number of the Group's key raw materials will provide a challenge going forward, which will be mitigated by the Group focus on its margin improvement programme

The balance sheet remains strong with all projects currently being financed from Group net funds

Overall performance since the year end has been in line with management expectations

***These items have been disclosed separately in the Group's consolidated income statement, while a definition of exceptional items is given in note 1 to the financial statements

Africa

With over 100 years' experience of trading in Africa we are proud of the knowledge of local markets and consumers we have developed, which has resulted in a strong portfolio of local brands

Our passion to continue to grow these brands and develop innovative products in response to local needs has delivered success in the emerging markets of Africa

To provide clarity and focus management continue to structure the Nigerian business into the following units

Soaps and detergents | Health and beauty | Electrical goods (HPZ, a joint venture with Haier) | Food and nutrition (Nutricima, a joint venture with Glanbia) | Supply chain and distribution

Soaps and detergents

The soaps and detergents portfolio forms the backbone of the African business in an increasingly competitive market. Products include laundry and toilet soap and bulk and branded detergents.

Health and beauty

This unit has a variety of strong trusted local brands which includes haircare and skincare products, medicated rubs and pharmaceutical products. Pan-regional development of these brands has brought benefits to the African region as a whole.

Electrical goods

This unit sells Haier Thermocool branded electrical goods manufactured with our Chinese partner Haier which include fridges, freezers, washing machines, televisions, DVD players, mobile phones and air conditioning units. The Group has capitalised on the strength of the Haier Thermocool brand by introducing a number of new products in the year.

Food and nutrition

The food and nutrition unit, which manufactures milk and nutritional products with our joint venture partner Glanbia Plc, has built on last year's success. Work to extend the factory is well under way while there have been exciting new products developed in the year.

Supply chain and distribution

One of our key strengths in Africa is our extensive network of depots and factories in Nigeria. Placing distribution in its own unit has given the business focus and the continuous desire to improve its distribution network.

Our business in Africa

Overall, performance in **Nigeria** has been strong, with limited disruption from the election process which took place in April 2007

Revenue and profit in local currency showed increases over the prior year of 30% and 12% respectively. The Nigerian currency remained stable against the dollar during the year however the results are affected on translation to sterling as a result of the weak dollar.

Soaps and detergents performed well in the year although the market remains competitive with increased levels of supply and pressure on margins through higher commodity costs. However brand positioning remains strong and was supported in the year with significant new product launches including Elephant Gold detergent and extensive brand renovation of all of the category leading brands including Zip and Jet (detergents)

and Premier, Canoe and Duck (soaps). Savings from in-house power generation as a result of the investment made last year have helped to counter cost increases elsewhere within the business.

Sales in Health and beauty grew year on year predominantly through new product launches such as Super Robb mentholated rub and relaunches of our existing brands such as Venus hair relaxer. The Venus relaunch was the first product launch under the pan-regional project to leverage the strength of our brands across the African territories. A review of the portfolio of brands in this division has now been concluded in order to prioritise those that will be targeted for growth in the future. These include Robb (medicaments)

Venus Joy and Carex (personal care) and Cussons Baby. During the year manufacturing operations for this division were reviewed resulting in the transfer of production for certain products to Ghana.

The Electrical goods business experienced another year of significant growth with the business strengthening its number one market position in both the refrigerator and freezer categories. Growth is also being achieved in the other product categories including air conditioners, televisions, DVD players, washing machines, dishwashers, microwave ovens and water heaters. Sales of laptop computers and mobile phones commenced early in the new financial year.

Super Robb

Super Robb is a good example of how a local leading health and beauty brand Robb has been developed to expand the mentholated rub category to suit local tastes and help deliver profitable growth for the Group.

Venus

Venus is one of the first health and beauty brands to be relaunched and aligned as a regional African brand. Venus comprises a range of haircare, bodycare, facecare and toiletries products.

Powerfist

Our extensive nationwide depot network in Nigeria allowed for the quick distribution of our innovative energy drink Powerfist. The launch of the product was supported by a television advertising campaign with a popular Nigerian artist called D banj.

Nunu

The recently introduced Nunu brand product categories have already been reviewed and developed to include Nigeria's first non-chocolate flavoured milk drinks. This has seen the launch of new flavours including berry and banana.

In June 2007 HPZ was proud to open a showroom in Lagos being the first 'world class standard' electrical retail outlet of its kind to be opened in Nigeria. Named HT Cool World, the showroom will allow the full range of electrical products to be sold to both retail and commercial customers to complement sales through existing distribution channels.

The joint venture with Glanbia continues to progress well with turnover considerably ahead of last year following a number of successful new product launches including Coast milk, Nunu flavoured powdered milk and Powerfist energy drinks. While the rising cost of milk across global markets has impacted margins in the short-term, selling prices in the Nigerian market

are now moving upwards. There will be further new product launches in the new financial year and further capacity for existing products available at the end of 2007 on completion of the current factory extension.

A number of significant initiatives in Supply chain and distribution have been rolled out in the year including:

- Completion of a second phase of upgrades to the nationwide depot network
- Opening of two regional distribution centres to enable faster supply to the depots and a lower stockholding at each individual depot
- Expansion of the dedicated haulage fleet which now numbers in excess of sixty megatrucks'

- Improvements to the clearing and forwarding operation to assist in the reduction of lead times of supply into Nigeria

During the course of the new financial year, a wider review of the traditional Nigerian manufacturing base will be undertaken to ensure facilities are appropriately structured to cater for future growth plans.

Revenue and profitability in the other African territories, **Ghana** and **Kenya** are ahead of last year mainly as a result of growth from relaunches of existing products and the introduction of new products, such as Nunu milk and HPZ electrical goods, which commenced sales in Ghana during the year.

Elephant

Our detailed knowledge of the local African markets in which we operate has led to the expansion of the Elephant detergent brand to include the new Elephant Gold detergent product to cater for the changing needs of the consumer.

Premier

Premier is a trusted popular brand of toilet soap in West Africa. The brand has grown organically along with consumer needs to include a number of successful variants in both toilet and bath soap.

Haier Thermocool

Continuous brand review has seen the Group capitalise on the strong Haier Thermocool brand by expanding product categories to deliver exciting new products to the market-place which include LCD televisions, DVD players, mobile phones, dishwashers and microwave ovens.

Haier Thermocool

Haier Thermocool products are sold throughout Nigeria and the hard work and passion to develop the brand has resulted in a category leading white goods product.

Asia

A key feature of our Asian region is our first class distribution network in emerging markets, which enables us to deliver our strong brand ranges efficiently, responding quickly and appropriately to local needs

The Asian markets in which we operate offer a naturally balanced portfolio geographically, offering both mature and emerging markets with good opportunity for growth

Babycare

The region has a number of products falling within this category such as soaps lotions shampoos talcum powder and rubs. These products are distributed under strong local brands which are in category leading positions in their marketplaces demonstrating the effectiveness of the Group's strategy of developing leading local brands to suit the needs of local consumers.

The babycare category has been expanded with the launch of the new Cussons Sahaja brand.

Household and detergents

This region has a diverse range of products falling within this category. Examples include detergents manual dishwash products and automatic dishwash products. Strong brand renovation in the year has been driven by our inherent knowledge of the local markets in which we operate.

Our innovation in Australasia has seen the development of detergents which inject sunscreen into clothing and detergents that use less water than other products in the market.

Personal care and soap

Products falling within this category include soaps deodorants bodywashes talcum powders gels creams and colognes. The diverse product range, which includes a number of leading local brands such as Extreme, is distributed to the vast Asian market through our first class distribution networks in Indonesia Thailand the Middle East and Australia.

Group sourcing centre

The new world class manufacturing facility in Thailand has helped service the bar soap requirements of our UK and Australian markets, following the successful factory commissioning last year.

The factory will continue to play an integral role in the Group's future bar soap sourcing requirements going forward.

Our business in Asia

In **Australia**, the market for branded detergent products has become significantly more competitive, principally as a result of the introduction of private label ranges by the prominent retailers

Consequently sales and margins have been impacted by the effect of lower selling prices and additional promotional support costs. A number of initiatives are being actioned in order to respond to these market developments. Firstly the business's extensive new product pipeline has been prioritised and a significant

number of innovative new products are being launched across the brand portfolio of Radiant and Duo (clothes care), Morning Fresh (dishwash) and Pure (personal wash) in the early part of the new financial year. Secondly, cost reduction initiatives have been accelerated supported by a cross functional group team in

order to restore margins to previous levels. The fundamentals of the Australian business remain sound and the Group's strength of local market knowledge is expected to assist in returning this business to growth in the coming year.

Radiant

Radiant's power packed granules have been developed and improved to include innovative variants that are more friendly on the environment and can decrease water consumption.

Pure

Pure liquid soap is a mild and gentle soap which uses natural products to leave the skin clean and fresh.

Morning Fresh

Morning Fresh is a popular global brand which is marketed differently across our regions to suit local needs. The Australian brand has evolved to include a variety of innovative dishwasher tablets to supplement the existing liquid range.

Baby Needs

The Baby Needs range evolved from a review and subsequent expansion of the market-leading Cussons Baby brand in Indonesia. The popular Baby Needs range includes baby utensils such as bottles, bowls, soothers and teats.

Sales and profitability in **Indonesia** improved in the year as a result of successful development of the baby range resulting in a strengthening of the brand's number one position in the Indonesian market. During the year the baby range was extended with the launch of a Baby Needs range of products including bottles, plates and

feeding spoons. The core Cussons Baby range was also complemented by the launch of a basics range called Cussons Sahaja to target a further segment of the population. Further range extensions are also planned for the new financial year. Other brands such as Imperial Leather and Cussons Extreme continue to perform well

Improvements to the nationwide depot network have continued in the year with rationalisation of depot operations in Jakarta now complete.

In the other Asian units **Thailand**, **Malaysia** and the **Middle East**, revenue and profitability were maintained at the previous year's level.

Cussons Baby

Cussons Baby is a comprehensive range of products which gently care for and protect your baby. Cussons Baby has grown significantly to become Indonesia's leading brand in the competitive baby care sector.

Extreme

Extreme is a good example of a local brand which has become established in the male grooming market in Indonesia. Products include deodorants, colognes, sprays and gels.

Imperial Leather

The global Imperial Leather brand, which is associated with personal wash products, has a high profile in Thailand through sales of bar soap. The popularity of the brand has resulted in a diverse range of bar soaps with numerous variants and sizes.

Morning Fresh

In Asia the Morning Fresh product has been adapted to suit local consumer needs. The dishwashing liquid refill pouch is a popular alternative to the conventional European packaging.

Europe

Our desire to grow our leading brands to category leading positions has resulted in innovative new product development as well as significant activity in brand renovation, with product relaunches and the introduction of innovative new variants, including special limited editions, in the competitive European market

Personal wash and soap

Within this category are household leading brands including products such as shower gels, bath foams and soaps.

There has been significant activity in the year to grow these brands through new product development and brand renovation to satisfy the changing needs of local consumers.

The significant activity in the year has helped establish a position as market leader in the personal wash market.

Household and detergents

This product category includes concentrated dishwash, detergent powders, fabric conditioners and cleaning products. The Group's strategy to grow its brands has been evidenced in the year by the introduction of new products, new variants and improvements to product formulations.

Food

This product category consists of edible oils and spreads. Our continuous product review has seen numerous new products launched in the year, with a particular focus on healthier products to control and even reduce cholesterol levels, demonstrating our commitment to create products suited to local consumer needs and tastes.

Haircare

This category includes quality haircare products from shampoos and conditioners through to styling products.

Many of the products in the haircare range have benefited from renovated packaging in the year, as well as more extensive distribution methods compared to prior years.

Our business in Europe

In the **UK**, performance has exceeded expectations as a result of a successful programme of brand renovation across the portfolio, resulting in the achievement of the number one position in the Personal Wash category

The Imperial Leather range was expanded during the year with new variants and the launch of limited edition shower and bath products. Consumer loyalty to the Carex range remains high and growth was achieved through the introduction of new variants and a Hand Care experts campaign which was run both on television and in targeted print publications. The Original Source brand, which was completely renovated last year, has grown as a result of the introduction of new products such as

body scrubs and an innovative range of 'skin food' shower and bath products.

The Charles Worthington haircare brand was successfully rolled out to the nationwide trade during the year with a very positive response from both the trade and consumers. Towards the end of the financial year, the core Charles Worthington Results range was completely renovated with exciting new graphics and is being supported in the new financial year with the first Charles Worthington TV campaign.

In the UK, the supply chain focus is largely on the new manufacturing facility which will begin operation in mid 2008 as part of the new Innovation Centre. Negotiations for the sale of the Manchester and Ellesmere Port sites are at an advanced stage. Completion of the sale of the Nottingham site, which is subject to a conditional contract, is still expected by the end of the 2008 calendar year.

Charles Worthington

The Charles Worthington brand has developed significantly since it was acquired, with the launch of the Dream Hair and style com ranges being well received in the market. Further commitment to evolve the brand is illustrated by the recent relaunch of the Results range in the UK.

Original Source

Since its acquisition, Original Source has evolved significantly with last year's packaging relaunch supported by a national television and press campaign. The product categories have been expanded to include new variants and the newly launched body scrubs.

Imperial Leather (IL)

IL foamburst, which combines the innovation of the foamburst product and the strength of the IL brand, has seen a number of new limited edition variants launched in the year. The variants which have been very well received in the market include Tahitian Retreat and Japanese Spa editions.

Carex

Carex is a popular handcare brand because of its effective use against germs and bacteria without being harsh on hands. Recent product development has seen the launch of a new bathroom range and innovative new hand washes containing collagen.

During the year a UK restructuring programme was undertaken both to prepare for the new Innovation Centre and as part of a wider move to build up overseas resource in areas previously supported by head office. An exceptional charge relating to this programme has been made in the year.

Sales in **Poland** have been strong against a competitive background with both the 'E' detergent brand and Luksja personal wash brand performing well. The 'E' range was renovated in the year

with new variants of both powders and fabric conditioners and was expanded into household cleaning products in the second half with the launch of 'E Boom'. The Luksja range of soaps and shower gels was also expanded in the year and achieved market leader position based on volume share. During the year the head office and warehousing site in Warsaw was sold therefore enabling the business to operate from a reduced fixed cost base and to focus on margin improvement initiatives at the Wroclaw factory site.

Sales and profitability in **Greece** have improved in the year following the rebranding and relaunch of the core Minerva brand. Our share of the olive oil market has increased and the portfolio of products has been strengthened with the launch of a premium range of olive oil in tins. Further expansion of the product range continues with successful launches of Minerva So Real butter and Minerva Benecol cheese products.

'E'

'E' is a much loved brand in Poland. Its popularity has been established through the delivery of quality products over many years. The brand has recently been developed to include an innovative range of cleaning and stain removal products.

Luksja

Luksja is a good example of one of our brands that is unique to a territory (Poland) and is also in a market leading position. The brand has been developed and expanded in recent periods to include soaps and shower gels in a variety of popular fragrances.

Minerva spread

Our desire to expand our portfolio of category leading brands has seen the successful launch in the period of a number of new spreads and soft cheese products which are focussed on delivering the consumer positive health benefits.

Minerva oils

Minerva is a brand with a great deal of history and heritage in Greece. Recent innovations have seen the launch of new packaging which protects the delicate flavour, golden green colour and the subtle aroma of the olive oil.

Our future plans across the world

The Group operates in a variety of markets, including mature markets as well as emerging exciting vibrant markets offering potential for future growth. Below are some of the projects and initiatives which we believe will help the Group capitalise and reinforce its strong position as well as helping us deliver our targets for profitable growth.

Following the successful completion of the milk factory last year and with sales exceeding expectations we have moved quickly to respond to local consumer needs by starting work on the factory extension and announcing plans to build a second nutritional factory, to increase supply to the growing nutritional market in Nigeria.

Going forward there will be significant effort to grow and develop our milk brands and nutritional products in Africa.

The Group has started building a new manufacturing facility in Manchester to replace the existing liquid soap site at Kersal Vale which is running at capacity. The new site will be a world class

personal wash manufacturing facility, and regarded as the Group's centre of excellence. It is anticipated that the site will act as a central knowledge repository for the Group, with a focus for research and development to ensure we are at the forefront of innovation, continuing to develop innovative products to satisfy our local consumers.

Nutrition

We have announced plans to build a second nutritional factory to increase supply to the growing nutritional market in Nigeria. Going forward there will be significant effort to grow and develop our milk brands and nutritional products in Africa.

Agecroft

The new site in Manchester will be a world class personal wash manufacturing facility and regarded as the Group's centre of excellence.

A significant project to review our distribution network in our African territories, which is regarded as one of our key strengths, has been started. This has seen a thorough review of our African distribution model, which will result in significant developments going forward to reduce further our lead times of goods to the consumer,

and importantly in a manner that is also more efficient to the Group.

Our detailed knowledge of the Nigerian market has identified the consumer demand for a different retail experience. This has led to the development of HT Cool World – an innovative concept of a plaza store to showcase our

leading brands with a focus on electrical goods. The Nigerian public were eagerly awaiting the opening of the first store which opened this summer in Lagos.

African distribution network review

A thorough review of our African distribution model has been undertaken which will result in significant developments going forward to reduce further our lead times of goods to the consumer and importantly in a manner that is also more efficient to the Group.

HT Cool World

We have developed the innovative concept of a plaza store called HT Cool World to showcase our leading brands with a focus on electrical goods. The Nigerian public were eagerly awaiting the opening of the first store which opened this summer in Lagos.

As part of our long-term people development plan, we have reappraised the core values that we believe should be embedded in our culture. These values are being rolled out across our Group to embed them in every operation.

The revised values provide a framework for staff and ultimately the Group to develop and succeed.

Courage. We challenge convention, ourselves and each other. We have the strength, willingness and determination to initiate, make things happen and to carry them through.

Accountability. We are all champions of our company. We take personal responsibility for achieving our objectives. We do what we say we shall do. We do what is right, not merely what is expected. We act with openness, integrity and trust. We ask for help, admit to our mistakes and put things right.

Networking. We are one company across all functions and geographies. We work towards a common goal through co-operation and teamwork.

Drive. We are relentless in our pursuit of success. Together we approach each day with the energy, passion and persistence to exceed expectations.

Oneness. We are all PZ Cussons people. We treat each other with respect regardless of status. We act professionally and together we celebrate our success with understated pride. We are quiet achievers.

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REPORT OF THE DIRECTORS CONTINUED

Principal activities

The principal activities of the Group are the manufacture and distribution of soaps, detergents, toiletries, pharmaceuticals, electrical goods, edible oils and nutritional products. The subsidiary undertakings and joint ventures principally affecting the profits, liabilities or assets of the Group are listed in note 31 of the consolidated financial statements.

Dividends

The directors recommend a final dividend of 3.27p (2006: 2.95p) per ordinary share to be paid on 26th September 2007 to ordinary shareholders on the register on 24th August 2007 which together with the interim dividend of 1.00p (2006: 0.93p) paid on 10th April 2007 makes a total of 4.27p for the year (2006: 3.88p).

Political and charitable contributions

Charitable contributions in the United Kingdom during the year amounted to £50,000 (2006: £50,000). No political contributions were made (2006: nil).

Research and development

The Group maintains in-house facilities for research and development in the United Kingdom, Poland, Indonesia, West Africa and Australia, in addition, research and development is sub-contracted to approved external organisations. Currently all such expenditure is charged against profit in the year in which it is incurred, as it does not meet the criteria for capitalisation under IAS 38 'Intangible assets'.

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.

Employment of disabled persons

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

Employee information

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

Auditors

In the case of each of the persons who are directors of the company at the date when this report was approved:

- So far as each of the directors is aware, there is no relevant audit information (as defined by the Companies Act 1985) of which the company's auditors are unaware.
- Each of the directors has taken all the steps that he ought to have taken as director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This information is given and should be interpreted in accordance with the provision of section 234ZA of the Companies Act 1985.

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

REPORT OF THE DIRECTORS CONTINUED

Enhanced Business Review

The functional performance of the Group along with an analysis of KPIs is provided on pages 6 to 21. The additional information required to be disclosed in the Enhanced Business Review is shown below.

Principal risks and uncertainties facing the Group

The Group's business activities, financial condition, results of operations or the company's share price could be affected by any or all of the following risks or uncertainties:

Political and economic stability

The Group conducts a significant portion of its operations outside the UK in developing markets which have an increased risk of political and economic instability; however, the Group has a diverse geographic portfolio in order to help mitigate the risk that could arise in any one particular territory.

Foreign currency and treasury risk

The international range of the Group's activities gives rise to both transactional exchange rate risk and translation exposure when the results, assets and liabilities 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 trade balances. 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.

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.

The Group maintains a substantial net funds position (as defined on page 6). Net funds at 31st May 2007 were £60.3 million (2006: £51.9 million), an analysis of which is provided in the Financial Highlights. These principally comprise short and medium-term deposits and borrowings. 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.

Raw materials

The Group's profitability depends on the cost of raw materials from around the world, which exposes it to price and supply fluctuation. Key items, such as oils and fats, packaging materials and energy, are subject to fluctuations in price and availability. The Group does take measures to protect against the short-term impact of these fluctuations and shortfalls; however, failure to recover higher costs or shortfalls in availability could have a negative impact on profits.

REPORT OF THE DIRECTORS CONTINUED

Directors

Professor J A Arnold was appointed a non-executive director on 1st January 2007

Messrs C Nicoloulas R H Sellers and P J Smyth retired from the board on 31st May 2007

In accordance with the company's articles of association Professor J A Arnold now retires as a director and being eligible offers himself for election at the annual general meeting

The directors retiring by rotation are Mr A J Green Mr A G Calder and Mr D W Lewis who being eligible offer themselves for re-election

Executive directors at 31st July 2007

Mr A J Green

Chairman (age 56)

He joined the company in 1975 and was appointed to the board in 1990 becoming Chairman in 1993

Mr A G Calder

Deputy Chairman (age 60)

He joined the company in 1996 and was appointed to the board in 1998 becoming Deputy Chairman in January 2006

Mr G A Kanellis

Chief Executive (age 42)

Was appointed Chief Executive in June 2006 He joined the company in 1993 and was appointed to the board in 2003

Mr C G Davis

Regional Director – Africa (age 45)

He joined the company in 1993 and was appointed to the board in 2006

Mr B H Leigh

Finance Director (age 36)

He joined the company in 1997 and was appointed to the board in 2006

Mr J Pantelireis

Supply Chain Director (age 53)

He joined the company in 1980 and was appointed to the board in 2005 having held a number of senior positions with the Group

Independent non-executive directors at 31st July 2007

Mr J D M Smith (age 67)

Was for many years an executive director of BTR Plc Appointed to the board in 2000 Mr Smith is the senior non-executive director

Professor J A Arnold (age 63)

A chartered accountant and Chairman at Pro Manchester Appointed to the board in 2007

Mr D W Lewis (age 62)

A former partner of Addleshaw Goddard Appointed to the board in 2004 Mr Lewis is a non-executive member of the Addleshaw Goddard Governance Board

Mr J T J Steel (age 47)

A chartered accountant and Managing Director of Corporate Finance at Arbuthnot Securities Appointed to the board in 2005

REPORT OF THE DIRECTORS CONTINUED

Directors' interests

The directors' interests in the share capital of the company at 31st May 2007 together with their interests at 1st June 2006 are detailed below

	Ordinary shares	
	2007	2006*
Beneficial	Number	Number
A J Green	62,403,690	62 403,690
G A Kanellis	84,710	64 270
J A Arnold	3,984	–
A G Calder	409,180	293 680
C G Davis	107,030	40 880
B H Leigh	36,830	10 000
D W Lewis	25,000	25 000
J Pantelireis	77,000	77 000
J D M Smith	90,000	90 000
J T J Steel	10,000	10 000
Total	63,247,424	63,014 520
Non-beneficial		
A J Green	6,926,080	6 926 080
A G Calder	69,292,170	69 292 170
Total	76,218,250	76 218 250

Notes

1 The figures in the tables do not include 3 913 299 (2006 4 972 990*) ordinary shares purchased by the ESOT (Employee Share Option Trust) at 31st May 2007. The ESOT is a discretionary trust under which the class of beneficiaries who may benefit comprises certain employees and former employees of the company and its subsidiaries including members of such employees and former employees' immediate families. Some or all of the shares held in the ESOT may be the subject of awards to executive directors of the company (excluding the Chairman) under the deferred annual share bonus scheme, details of which are given in the report on directors' remuneration. Accordingly those executive directors are included in the class of beneficiaries and are deemed to have a beneficial interest in all the shares acquired by the ESOT.

2 The figures in the tables do not include 6 864 539 (2006 5 487 190*) ordinary shares granted as options under the executive share option scheme at 31st May 2007. Further details of this scheme are given in the report on directors' remuneration.

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

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

*The comparative figures have been restated for the share split on the basis of ten for one which was approved at the last annual general meeting on 25th September 2006 such that there are now ten 1p ordinary shares for every 10p ordinary share previously in existence before the share split.

REPORT OF THE DIRECTORS CONTINUED

Other substantial interests

The register maintained by the company under section 808 of the Companies Act 2006 disclosed the following interests in the shares of the company held at 31st July 2007

	Number of shares	%
J B Zochonis	60 619 580	14.14
Zochonis Charitable Trust	49 365 040	11.51
Invesco UK Limited	21 445 506	5.00
Mrs C M Green Settlement	20 328 280	4.74
J B Zochonis Settlement	19 927 130	4.65
Sun Life Unit Assurance Ltd	13 843 464	3.23

Special business at the annual general meeting

The resolutions that will be proposed at the annual general meeting on 24th September 2007 are set out in the separate Notice of annual general meeting dated 23rd August 2007

Purchase of own shares

No shares were purchased during the period from 1st June 2006 to 30th July 2007 (2006: nil) other than the acquisitions undertaken by the ESOT (see note 26)

By order of the board of directors



B H LEIGH – Secretary
31st July 2007

REPORT ON DIRECTORS' REMUNERATION

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

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

Remuneration committee

The members of the committee during the year were Professor J A Arnold (appointed 1st January 2007) and Messrs D W Lewis, R H Sellers (retired 31st May 2007), J D M Smith (Chairman) and J T J Steel.

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

Policy on executive directors' remuneration

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

Elements of the remuneration package are as follows:

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

Basic salary and benefits

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

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

Deferred annual share bonus scheme

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

Bonuses to be awarded for achievement of targets for the current financial year are included in the directors' remuneration table on page 33 and are calculated using the market value at 31st May 2007 of £172 per share.

Further details of the employee trust are given in note 26 of the consolidated financial statements.

*The maximum bonus of 50% can be exceeded for directors retiring in the current or following financial year as they are compensated for their non-participation in the executive share option scheme, based on the scheme rules with any interpretation agreed by the remuneration committee.

Executive share option scheme

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

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

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

REPORT ON DIRECTORS' REMUNERATION CONTINUED

- The remuneration committee will review the performance conditions each time options are granted in order to ensure that they remain challenging in the context of the company's long-term budgets and may impose different conditions provided they are suitably challenging
- With effect from 1st June 2006 options granted are no longer subject to retesting in the fourth year following grant

Details of options granted to directors are as follows

The fourth grant of options took place on 31st August 2006. The exercise price for these options equal to the market value at the date of the grant, is £1.41 and is applicable to all directors. Options are normally exercisable between three and ten years from the date of grant. There have been no other grants of options during the year and no variations to the terms and conditions or performance criteria during the year.

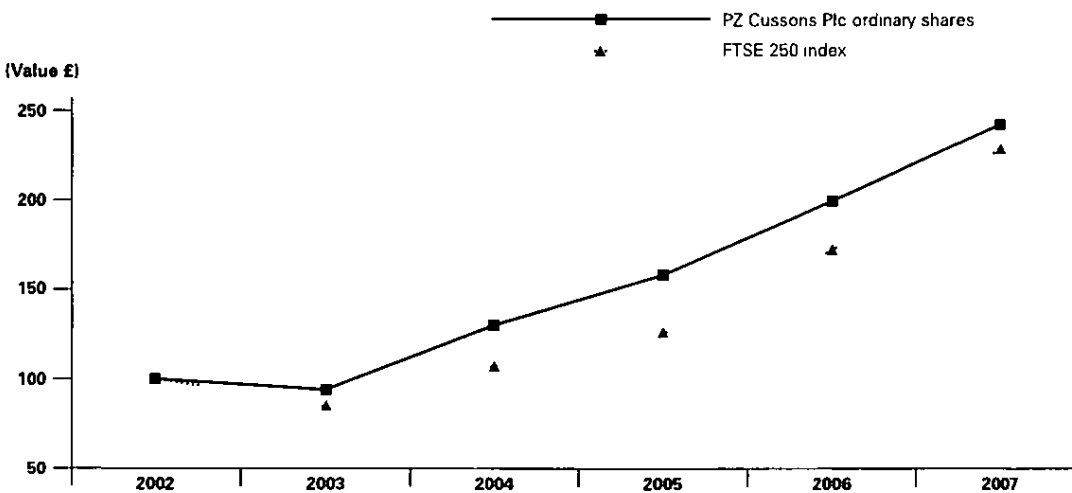
Ordinary shares	Balance at 1st June 2006*	Options granted during year	Options exercised during year	Balance at 31st May 2007	Option price range (£)
G A Kanellis	570,960	213,210	–	784,170	0.75-1.41
A G Calder	772,160	211,080	–	983,240	0.75-1.41
C G Davis	193,540	142,140	–	335,680	0.75-1.41
B H Leigh	157,550	127,930	–	285,480	0.75-1.41
C Nicoloulas	509,770	–	–	509,770	0.75-1.10
J Pantelireis	138,670	132,190	–	270,860	1.30-1.41
P J Smyth	588,790	152,800	–	741,590	0.75-1.41

The market price of ordinary shares at 31st May 2007 was £1.72 and the range during the year was £1.38 to £1.82.

*The comparative figures have been restated for the share split on the basis of ten for one, which was approved at the last annual general meeting on 25th September 2006 such that there are now ten 1p ordinary shares for every 10p ordinary share previously in existence before the share split.

Performance graph

The graph illustrates the performance of PZ Cussons Plc measured by Total Shareholder Return (TSR) over the five year period to 31st May 2007 against the TSR of a holding of shares in the FTSE 250 index over the same period based on an initial investment of £100. The FTSE 250 index was chosen as PZ Cussons Plc is a constituent of that index.

PZ Cussons Plc TSR vs the FTSE 250 Index TSR

Source Thomson Datastream

REPORT ON DIRECTORS' REMUNERATION CONTINUED

The following table shows remuneration of individual directors for the year ended 31st May 2007

	Salary/ fees £	Bonus £	Taxable benefits £	2007 Total £	2006 Total £
Executive directors					
A J Green (Chairman)	296 731	–	28,917	325,648	317 957
G A Kanellis	320 878	130 950	18 307	470,135	388 479
C N Green (to 31st May 2006)	–	–	–	–	893 698
A G Calder	314 601	137 749	18 386	470,736	464 858
C G Davis* (from 1st Jan 2006)	216,347	65 483	13 589	295,419	115,291
B H Leigh (from 1st Jan 2006)	194 033	78 566	10 526	283,125	110 321
C Nicolouliras	288 991	178 103	19,507	486,601	553 440
J Pantelireis	194 077	81 190	19 296	294,563	294,806
P J Smyth**	227 595	93 850	13 883	335,328	341 729
J Spyridoulas (to 28th Feb 2006)	–	–	–	–	369 470
Non-executive directors					
J A Arnold (from 1st Jan 2007)	14 583	–	–	14,583	–
D C Godwin (to 30th Sep 2005)	–	–	–	–	12 500
D W Lewis	30 000	–	–	30,000	27 500
R H Sellers	35 000	–	–	35,000	31 250
J D M Smith	35 000	–	–	35,000	31 250
J T J Steel (from 1st Oct 2005)	30,000	–	–	30,000	15 000
	2 197 836	765 891	142 411	3,106,138	3 967 549

*Also received a relocation allowance of £44 089

**The service contract of PJ Smyth was terminated by mutual agreement on 31st May 2007. In addition to the remuneration shown in the above table, PJ Smyth received £450 000 in cash in compromise of his entitlements on termination of his service contract.

REPORT ON DIRECTORS' REMUNERATION CONTINUED

Pension benefits

The executive directors' pension scheme provides benefits of up to two thirds salary (subject to a scheme specific earnings cap) 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 2007 are members of the scheme. Benefits in respect of each executive director are given in the table below.

	Gross increase in accrued pension £	Increase in accrued pension net of inflation (a) £	Total accrued pension at 31 05 07 £	Value of net increase in accrual over period (b) £	Value of accrued pension at 31 05 06 £	Value of accrued pension at 31 05 07 £	Total change in value during period (c) £
A J Green	13 541	6 661	173 536	75 000	2 206 000	2 358 000	136 000
G A Kanellis	22 508	19 802	85,447	116,000	455 000	586 000	111 000
A G Calder	18 596	12 115	169 315	180 000	2,455 000	2 746 000	275,000
C G Davis	8 355	8 291	9 838	52 000	12 000	78 000	52 000
B H Leigh	30 262	28 931	61 208	137,000	172 000	317 000	132 000
C Nicoloulas	20 797	13 267	195 908	231 000	3,501,000	3 652 000	134,000
J Pantelireis	16 838	13 344	98 104	142 000	932 000	1,133 000	189 000
P J Smyth	8 910	4 548	110 343	40 000	1 133 000	1 211 000	65 000

Notes

1 Pension accruals shown are the amounts which would be paid annually on retirement based on service to the end of the year and salary at 31st May 2007.

2 Transfer values have been calculated in accordance with version 9.2 of guidance note GN11 issued by the actuarial profession.

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

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

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

6 The total accrued pension as at 31st May 2007 and the value of accrued pension at 31st May 2006 and 31st May 2007 shown for Messrs Calder and Smyth include benefits resulting from transfers into the plan.

7 Mr C Nicoloulas retired on 31st May 2007. The above figures are based on the change to Mr Nicoloulas's accrued benefits between 31st May 2006 and 31st May 2007. On retirement Mr Nicoloulas received an annual pension of £150 003 and a cash lump sum of £440 793.

8 Mr P J Smyth retired on 31st May 2007. The above figures are based on the change to Mr Smyth's accrued benefits between 31st May 2006 and 31st May 2007. On retirement Mr Smyth received an annual pension of £93 331.

9 The company provides unfunded unapproved pension benefits for Messrs Calder, Smyth, Leigh and Davis as their benefits would have been subject to the Inland Revenue earnings cap introduced by the Finance Act 1989 had the earnings cap not been abolished by the Finance Act 2004. The funded benefits payable to these directors remain subject to a scheme specific earnings cap which increases each year and is calculated in a similar manner to the abolished statutory earnings cap.

Service contracts

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

By order of the board of directors

J D M Smith
31st July 2007

CORPORATE GOVERNANCE

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

Directors

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

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

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

The board has a documented schedule of matters reserved for its decision, including approval of the Group's strategy, annual budgets, material agreements and major capital expenditure and acquisitions, the approval of financial arrangements and the monitoring of performance, health, safety and environmental matters and risk management procedures. The board met formally four times during the year and will meet further as necessary to consider specific matters. All the directors were in attendance at each meeting.

All directors communicate with each other on a regular basis and board papers are prepared and issued prior to each board meeting to enable directors to give due consideration to all matters in advance of the meeting. Directors can take independent professional advice where necessary at the company's expense and have access to the services of the company secretary who is responsible for ensuring that board procedures and all applicable rules and regulations are followed. During the year, the company maintained liability insurance for its directors and officers.

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

A formal review of the board and board committee performance is carried out annually. The Chairman's performance is reviewed by the non-executive directors led by the senior independent director and takes into account the views of the executive directors. The performance of the non-executive directors is evaluated by the Chairman, in consultation with the executive directors. The remuneration committee reviews executive directors' performance with guidance from the Chairman and the chief executive, except in the case of the chief executive's performance where it is reviewed by the Chairman and the remuneration committee. The directors submit themselves for election at the annual general meeting following their appointment and thereafter by rotation in line with the Code and the company's Articles of Association. The review process in 2007 concluded that all directors continue to contribute effectively and with proper commitment, devoting adequate time to carry out their duties.

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

Nomination committee

The nomination committee is responsible for regularly reviewing the structure, size and composition of the board and identifying and recommending appropriate candidates for membership of the board when vacancies arise. The committee members are Mr A J Green (committee Chairman), Mr G A Kanellis and the four independent non-executive directors, Professor J A Arnold, Mr D W Lewis, Mr J D M Smith and Mr J T J Steel.

In considering an appointment, the nomination committee evaluates the balance of skills, knowledge and experience of the board and prepares a description of the role and capabilities required for a particular appointment. External search agencies or open advertising will be used where this is appropriate. Short-listed candidates will then be invited to interview with members of the committee and, if recommended by the committee, will be invited to meet other board members before any decision is taken relating to the appointment. The committee met twice during the year and all the committee members were in attendance at each meeting.

CORPORATE GOVERNANCE CONTINUED

Remuneration committee

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

Audit committee

The audit committee is responsible for reviewing, on behalf of the board, the Group's accounting and financial policies and its disclosure practices and internal controls. It is also responsible for overseeing all matters associated with the appointments, terms, remuneration and performance of the external auditors and for reviewing the scope and results of the audit and its cost effectiveness. These responsibilities are discharged at the audit committee meetings and through regular reports from the internal audit function. The audit committee comprises the four independent non-executive directors Professor J A Arnold (committee Chairman) Mr D W Lewis Mr J D M Smith and Mr J T J Steel and meets regularly with the external auditors. Professor J A Arnold, a qualified chartered accountant, brings recent and relevant financial experience to the audit committee. The audit committee met three times during the year and all the committee members were in attendance at each meeting.

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

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

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

Risk management committee

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

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

Remuneration

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

Accountability and audit**Directors' responsibilities in relation to financial statements**

The directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the International Accounting Standards (IAS) Regulation to prepare the group financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. The group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to

- Properly select and apply accounting policies
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

CORPORATE GOVERNANCE CONTINUED

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the company. In preparing these financial statements, the directors are required to

- Select suitable accounting policies and then apply them consistently
- Make judgments and estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

After undertaking 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.

Internal control

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

The board is of the view that there is an ongoing process for identifying, evaluating and managing the Group's significant risks, that it has been in place for the year ended 31st May 2007 and up to the date of the Annual Report and Financial Statements, that it is regularly reviewed by the board and that it accords with the Turnbull guidance for directors on the Combined Code.

The process includes

- Frequent communication between the board and subsidiary management on all critical business issues
- Regular visits to operating units by the board, head office management and internal audit
- A detailed system of budgeting, reporting and forecasting
- Regular review by the board of a risk management document produced by the risk management committee
- Taking necessary action to remedy any significant weaknesses found as part of the review of the effectiveness of the internal control system

At its July 2007 meeting, the board carried out the annual assessment of internal control for the year to 31st May 2007 by considering documentation from the executive committee, risk management committee and internal audit function as well as taking into consideration events since the year end.

The Group continues to take steps to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to the attention of management and the board. The Group has ethical guidelines and a defined fraud reporting process which are issued with the Group Internal Control Manual.

Relations with shareholders

In its financial reporting to shareholders, the board aims to present a balanced and understandable assessment of the Group's financial position and prospects.

The company maintains a corporate website, www.pzcussons.com, containing a wide range of information of interest to institutional and private investors and a subscription e-mail service is available which enables access to company notifications and news releases.

The company has periodic discussions with institutional shareholders on a range of issues affecting the Group's performance. All shareholders, including private investors, have an opportunity to present questions to the board at the annual general meeting and the directors are available to meet informally with shareholders after the meeting.

Compliance statement

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

Code Provision A.3.2

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

CORPORATE SOCIAL RESPONSIBILITY

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

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

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

The environment

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

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

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

The company will continue to provide the guidance necessary to ensure high standards are achieved at our manufacturing sites around the world whilst promoting continuous improvement based on careful risk assessment and comprehensive management systems. During recent years there have been major factory operating and efficiency improvements throughout the Group as we move towards world class manufacturing excellence.

Health and safety

PZ Cussons aims to maintain a safe workplace at all locations in which it operates. We continue to ensure that our business activities are undertaken in a responsible manner and in accordance with the relevant statutory legislation and that employees at all levels participate in the development, promotion and maintenance of a safe and healthy working environment for employees, visitors and the public. The company employs health and safety specialists and, where appropriate, provides on-site medical facilities for employees.

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

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Employment and staff development

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

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

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

Community and charity

We support a range of charitable causes both in the UK and overseas, mainly through a UK based shareholding trust and additional contributions are made through staff time and gifts in kind. PZ Cussons continues to provide assistance and donations to significant global fund-raising initiatives and recognises its responsibility to the communities in which it operates. We are committed to establishing and maintaining strong relationships with community groups, particularly in developing markets.

Product safety

PZ Cussons is committed to understanding issues involving safety associated with our products and supplying safe products to consumers. Human safety assessments for personal care products are carried out under the Cosmetic Products Directive. We also have in place more general guidelines relating to product safety covering raw material use, labelling and packaging requirements.

Animal testing

None of our products are tested on animals. We support the development and acceptance of alternative methods that reduce or replace the use of animals in product safety evaluation. We are in regular contact with our suppliers to ensure that our values on this subject are shared and where feasible they work to similar standards.

Development of CSR reporting

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PZ CUSSONS PLC

We have audited the group financial statements of PZ Cussons Plc for the year ended 31st May 2007 which comprise the consolidated income statement the consolidated statement of recognised income and expense the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 31. These group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the parent company financial statements of PZ Cussons Plc for the year ended 31st May 2007.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report the directors' remuneration report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the group financial statements.

In addition we report to you if, in our opinion we have not received all the information and explanations we require for our audit or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any further information outside the annual report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination on a test basis of evidence relevant to the amounts and disclosures in the group financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements and of whether the accounting policies are appropriate to the group's circumstances consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- The group financial statements give a true and fair view in accordance with IFRSs as adopted by the European Union of the state of the group's affairs as at 31st May 2007 and of its profit for the year then ended.
- The group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.
- The part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985 and
- The information given in the directors' report is consistent with the group financial statements.

Separate opinion in relation to IFRSs

As explained in note 1 to the group financial statements the group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the group financial statements give a true and fair view, in accordance with IFRSs of the state of the group's affairs as at 31st May 2007 and of its profit for the year then ended.



DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
Manchester United Kingdom
31st July 2007

CONSOLIDATED INCOME STATEMENT

Year ended 31st May 2007

	Notes	Before exceptional items £m	Exceptional items (note 3) £m	Total 2007 £m	Before exceptional items £m	Exceptional items (note 3) £m	Total 2006 £m
Revenue	2	577.9	–	577.9	539.9	–	539.9
Cost of sales		(365.9)	–	(365.9)	(330.9)	1.0	(329.9)
Gross profit		212.0	–	212.0	209.0	1.0	210.0
Selling and distribution expenses		(86.1)	–	(86.1)	(86.7)	(0.7)	(87.4)
Administrative expenses		(58.9)	(0.4)	(59.3)	(62.0)	–	(62.0)
Other costs		–	–	–	–	(2.7)	(2.7)
Share of results of joint venture	12	(0.8)	–	(0.8)	(0.1)	–	(0.1)
Operating profit	2	66.2	(0.4)	65.8	60.2	(2.4)	57.8
Finance income		2.8	–	2.8	4.3	–	4.3
Finance costs		(0.7)	–	(0.7)	(0.9)	–	(0.9)
Net finance income	6	2.1	–	2.1	3.4	–	3.4
Profit before taxation		68.3	(0.4)	67.9	63.6	(2.4)	61.2
Taxation	7	(19.8)	1.3	(18.5)	(18.6)	–	(18.6)
Profit for the year	4	48.5	0.9	49.4	45.0	(2.4)	42.6
Attributable to							
Equity holders of the parent		41.5	0.9	42.4	37.8	(2.4)	35.4
Minority interest		7.0	–	7.0	7.2	–	7.2
		48.5	0.9	49.4	45.0	(2.4)	42.6
Basic EPS (p)	9			9.99			8.33
Diluted EPS (p)	9			9.89			8.23
Adjusted basic EPS (p)	9			9.78			8.90
Adjusted diluted EPS (p)	9			9.68			8.79

The results shown above for both 2007 and 2006 relate to continuing operations

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

Year ended 31st May 2007

	2007 £m	2006 £m
Actuarial losses on defined benefit pension schemes	(8.3)	(3.8)
Exchange differences on translation of foreign operations	(4.0)	(2.4)
Taxation on items taken directly to equity	4.1	1.8
Net expense recognised directly in equity	(8.2)	(4.4)
Profit for the year	49.4	42.6
Adoption of IAS 39	–	2.0
Total net income and expense recognised for the year	41.2	40.2
Attributable to		
Equity holders of the parent	35.9	33.2
Minority interests	5.3	7.0

CONSOLIDATED BALANCE SHEET

At 31st May 2007

	Notes	31st May 2007 £m	31st May 2006 £m
Assets			
Non-current assets			
Goodwill and other intangible assets	10	54 2	54 0
Property plant and equipment	11	143 2	140 1
Investments in joint ventures	12	(1 7)	–
Other investments	13	0 8	0 8
Receivables	15	0 1	0 1
Non-current assets held for sale	11	2 6	1 3
Retirement benefit surplus	23	23 1	23 4
		222 3	219 7
Current assets			
Inventories	14	150 4	142 7
Receivables and prepayments	15	98 3	87 2
Investments	16	12 8	2 2
Cash and short-term deposits	17	53 3	65 8
Current taxation receivable		3 7	2 7
		318 5	300 6
Total assets		540 8	520 3
Liabilities			
Current liabilities			
Borrowings	18	(5 8)	(14 0)
Trade and other payables	19	(95 7)	(83 8)
Current taxation payable		(11 2)	(13 3)
Provisions	22	(7 3)	(1 9)
		(120 0)	(113 0)
Non-current liabilities			
Borrowings	18	–	(2 1)
Other liabilities	20	(1 4)	(3 6)
Deferred tax liabilities	21	(20 1)	(24 6)
Retirement benefit obligation	23	(37 2)	(30 5)
Provisions	22	(2 7)	(8 1)
		(61 4)	(68 9)
Total liabilities		(181 4)	(181 9)
Net assets		359 4	338 4
Equity			
Ordinary share capital	24	4 3	4 3
Capital redemption reserve	25	0 7	0 7
Revaluation reserve	25	29 6	27 3
Other reserve	26	(3 0)	(2 9)
Currency translation reserve	25	0 9	3 3
Retained earnings	25	279 3	259 3
Equity attributable to equity holders of the parent		311 8	292 0
Equity minority interest	25	47 6	46 4
Total equity		359 4	338 4

The financial statements were approved by the board of directors and authorised for issue. They were signed on its behalf by

A J GREEN

G A KANELLIS

31st July 2007



CONSOLIDATED CASH FLOW STATEMENT

Year ended 31st May 2007

	Notes	Year to 31st May 2007 £m	Year to 31st May 2006 £m
Operating activities			
Cash generated from operations	27	58 7	35 8
Taxation		(19 3)	(18 3)
Net cash flow from operating activities		39 4	17 5
Investing activities			
Investment income received		3 1	8 5
Purchase of property plant and equipment		(27 5)	(25 5)
Sale of property plant and equipment		12 6	10 2
Purchase of intangible assets		–	(0 2)
Proceeds from disposal of subsidiary		2 5	–
Net cash balances disposed of with subsidiary undertaking		(1 0)	(0 4)
Purchase of non-current asset investments		–	(0 3)
(Purchase)/sale of current asset investments		(10 4)	14 0
Loans to joint ventures		(0 5)	–
Net cash flow from investing activities		(21 2)	6 3
Financing activities			
Interest paid		(0 7)	(0 9)
Preference dividends paid		–	(0 1)
Dividends paid to minority shareholders in subsidiary companies		(2 3)	(2 5)
Purchase of shares for ESOT		(0 5)	(2 6)
Ordinary dividends paid		(16 7)	(15 2)
Net decrease in short-term borrowings		(1 9)	(3 4)
Cash received from minority shareholders in respect of rights issue		–	5 3
Repayment of preference share capital		–	(15 5)
Net cash flow from financing activities		(22 1)	(34 9)
Net decrease in cash and cash equivalents		(3 9)	(11 1)
Cash and cash equivalents at the beginning of the year	17	53 9	65 4
Effect of foreign exchange rates		0 1	(0 4)
Cash and cash equivalents at the end of the year	17	50.1	53 9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information

PZ Cussons Plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on the inside back cover.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 1.

1 Accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union (EU) including International Accounting Standards (IAS) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). Practice is continuing to evolve on the application and interpretation of IFRS. Further standards may be issued by the International Accounting Standards Board (IASB) and standards currently in issue and endorsed by the EU may be subject to Interpretations issued by the IFRIC.

IFRS as adopted by the EU differs in certain respects from IFRS as issued by the International Accounting Standards Board (IASB). However, the consolidated financial statements for the periods presented would be no different had the Group applied IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU.

The preparation of financial statements in conformity with generally accepted accounting principles under IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The financial statements have been prepared on a historical cost basis.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of PZ Cussons Plc and entities controlled by PZ Cussons Plc (its subsidiaries) made up to 31st May each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

The total profits or losses of subsidiaries are included in the consolidated income statement and the interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, the accounts of the overseas subsidiaries are adjusted to conform to the Group's accounting policies. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Operating profit

Operating profit is the profit of the Group before finance income, finance costs and taxation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1 Accounting policies continued**Exceptional items**

The Group has adopted a columnar income statement format which seeks to highlight significant items within the Group results for the period. Such items are considered by the directors to be exceptional in nature rather than being representative of the underlying trading of the Group and may include such items as restructuring costs, material impairments of non-current assets, material profits and losses on disposal of property, plant and equipment and profit or loss on disposal or termination of operations. The directors apply judgement in assessing the particular items, which by virtue of their scale and nature should be disclosed in the middle column of the income statement and notes to the financial statements as 'Exceptional items'. The directors believe that the separate disclosure of these items is relevant to an understanding of the Group's financial performance.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', which are recognised and measured at the lower of the assets' previous carrying value and fair value less costs to sell.

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control. Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method of accounting rather than proportional consolidation. Under IAS 28 'Investments in associates' and IAS 31 'Interests in joint ventures', a single figure for results is presented as a separate item on the face of the income statement as part of profit before tax within operating profit, while a single figure is disclosed for the Group share of net assets within fixed asset investments.

Intangible assets**Goodwill**

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill is initially recognised as an asset and is subsequently measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition has been retained at the previous UK GAAP amounts. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Other intangible assets

An acquired brand is only recognised on the balance sheet where it is supported by a registered trademark, where brand earnings are separately identifiable and the brand could be sold separately from the rest of the business.

Brands acquired as part of a business combination are recorded in the balance sheet at fair value at the date of acquisition. Purchased brands are recorded at purchase cost. Brands currently held are not amortised as the directors believe they have indefinite lives. In accordance with IAS 36 'Impairment of assets', the brands are tested for impairment annually and whenever there is an indication that the asset may be impaired. Any impairment is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately as income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1 Accounting policies continued**Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, rebates and sales related taxes but including interest receivable on sales on extended credit and income from the provision of technical services and agreements. Sales of goods are recognised when title has passed and the significant risks and rewards of ownership have been transferred.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in sterling, which is the functional currency of the company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the actual rate of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date.

Foreign exchange gains and losses arising from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Exchange differences arising on non-monetary assets and liabilities are recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Cumulative foreign currency translation differences arising on the translation and consolidation of foreign operations' income statements and balance sheets denominated in foreign currencies are recorded as a separate component of equity. Applying the exemption under IFRS 1, First time adoption of International Financial Reporting Standards, the Group has set the currency reserve to zero at 1st June 2004, the date of transition to IFRS and measured and recorded separately in that currency reserve all cumulative foreign currency translation differences arising after that date. On disposal of a foreign operation, the cumulative translation differences will be transferred to the income statement in the period of the disposal as part of the gain or loss on disposal.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants related to property, plant and equipment are reflected in the balance sheet as deferred income and credited to the income statement over the useful lives of the assets concerned. Grants previously recognised are subject to fulfilment of ongoing conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1 Accounting policies continued**Employee benefits****Retirement benefit obligations**

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.

In respect of the defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with full actuarial valuations being carried out every three years or more frequently should a material change occur in any of the schemes. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit and loss and presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Share-based payments

The Group operates a deferred annual share bonus scheme and an executive share option scheme for senior executives, both of which involve equity-settled share-based payments. In accordance with the transitional provisions, IFRS 2 'Share-based payment' has been applied to all grants of equity instruments after 7th November 2002 that were unvested as of 1st June 2007.

Equity-settled share-based payments under the executive share option scheme are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period. Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The cost to the company of making awards under the deferred annual share bonus scheme is charged to the income statement over the period to which the performance relates.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax liabilities on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1 Accounting policies continued**Property, plant and equipment**

Land and buildings held for use in the production or supply of goods or services or for administration purposes are stated in the balance sheet at deemed cost at the date of transition to IFRS less accumulated depreciation and any accumulated impairment losses. All other assets are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets other than land over their estimated useful lives using the straight-line method on the following basis:

Freehold buildings at rates not less than	2%
Leasehold buildings at rates which will reduce the book value to nil on or before the termination of the leases with a minimum of	2%
Plant and machinery not less than	8%
Fixtures, fittings and 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.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss for the period.

Inventories

Inventories are stated at the lower of cost and estimated net realisable value. Cost comprises direct materials and where applicable direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the FIFO method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Research and development

Research and development expenditure is charged against profits in the year in which it is incurred unless it meets the criteria for capitalisation set out in IAS 38 Intangible assets.

Cash and cash equivalents

Cash and cash equivalents includes cash at bank and in hand plus short-term deposits less overdrafts. Short-term deposits have a maturity of less than three months from the date of acquisition. Bank overdrafts are repayable on demand and form an integral part of the Group's cash management.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates. The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions.

The occasional use of financial derivatives is governed by the Group's policies approved by the board of directors which provide written principles in the use of financial derivatives consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value at the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity, and any ineffective portion is recognised immediately in the income statement.

Borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received net of direct issue costs. Finance charges including premiums payable on settlement or redemption and direct issue costs are accounted for on an accrual basis through the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent they are not settled in the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1 Accounting policies continued**Trade receivables**

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts

Trade payables

Trade payables are not interest bearing and are stated at their nominal value

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities

Investments

Investments (other than interests in joint ventures) are recognised and derecognised on a trade date when a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned and are initially measured at cost including transaction costs

Investments are classified as either held-to-maturity, held-for-trading loans and receivables or available-for-sale. Held-to-maturity investments and loans and receivables are measured at amortised cost. Held-for-trading and available-for-sale investments are measured at subsequent reporting dates at fair value. Where securities are held-for-trading purposes gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments gains and losses arising from changes in fair value are recognised directly in equity until the security is disposed of or is determined to be impaired at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

Critical accounting policies and key sources of estimation uncertainty

Estimates and accounting judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of financial statements under IFRS requires management to make assumptions and estimates about future events. The resulting accounting estimates will, by definition, differ from the actual results. The assumptions and estimates that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are as follows:

Accounting for intangible assets

The Group records all acquired intangible assets at fair value. Intangible assets are not amortised but are subject, at a minimum, to annual tests for impairment. Determining whether intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which the intangible asset has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Details of key estimates are discussed in note 10.

Retirement benefits

The Group operates three main UK retirement benefit schemes which are independent of the Group's finances. Actuarial valuations are carried out as determined by the trustees at intervals of not more than three years. The retirement benefit cost under IAS 19 is assessed in accordance with the advice of a firm of actuaries based on the latest actuarial valuation and assumptions determined by the actuary. The assumptions are based on information supplied to the actuary by the company supplemented by discussions between the actuary and management. The assumptions are disclosed in note 23. Operating results are affected by the actuarial assumptions used. These assumptions include discount rates, mortality rates, inflation rates and expected long-term rates of return on assets and may differ from actual results due to changing market and economic conditions and longer or shorter lives of participants.

Revenue recognition

The Group recognises revenue generally at the time of delivery which represents the point at which the significant risks and rewards of ownership are transferred to the customer and when collection of the resulting consideration for those goods is reasonably assured. Should management consider that the criteria for recognition are not met, revenue is deferred until such time as the consideration has been fully earned. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable net of discounts, rebates and sales-related taxes but including interest receivable on sales on extended credit and income from the provision of technical services and agreements. Dividend income from investments is recognised when the right to receive payment is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1 Accounting policies continued**Standards and interpretations**

At the date of authorisation of these financial statements the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective. The directors anticipate that the adoption of these standards and interpretations will have no material impact on the Group's financial statements. The directors anticipate that the Group will adopt these standards and interpretations on their effective dates.

- IAS 1 Amendment 'Capital disclosures' is effective for periods commencing on or after 1st January 2007
- IFRS 7 'Financial instruments: Disclosures' issued in August 2005 is effective for periods commencing on or after 1st January 2007 and introduces new disclosures to improve the information about financial instruments
- IFRS 8 'Operating segments' issued in November 2006 is effective for periods commencing on or after 1st January 2009

Interpretations in issue but not considered relevant to the activities of the Group are as follows:

- IFRIC 1 'Changes in existing decommissioning, restoration and similar liabilities'
- IFRIC 2 'Members' shares in cooperative entities and similar instruments'
- IFRIC 5 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds'
- IFRIC 6 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment'
- IFRIC 7 'Applying the restatement approach under IAS 29 financial reporting in hyperinflationary economies'
- IFRIC 10 'Interim financial reporting and impairment' issued in July 2006, is effective for periods commencing on or after 1st November 2006
- IFRIC 11 'Group and treasury share transactions' issued in November 2006 is effective for periods commencing on or after 1st March 2007
- IFRIC 12 'Service concession arrangements' issued in November 2006 is effective for periods commencing on or after 1st January 2008
- IFRIC 13 'Customer loyalty programmes' effective for accounting periods beginning on or after 1st July 2008
- IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' effective for accounting periods beginning on or after 1st January 2008

2 Segmental analysis

The Group's primary segment reporting is by geographic sector with business sector reporting being the secondary format. The Group has three geographical sectors which are based on the location of customers and consist of Africa, Asia and Europe. The Group has one main business sector being toiletries and household products.

Geographic segments

	Africa £m	Asia £m	Europe £m	Eliminations £m	Total £m
2007					
Total gross segment revenue	252.9	120.4	372.1	(167.5)	577.9
Inter segment revenue	–	(13.2)	(154.3)	167.5	–
Revenue	252.9	107.2	217.8	–	577.9
Segmental operating profit before exceptional items	26.1	9.8	30.3	–	66.2
Exceptional items (note 3)	(0.5)	–	0.1	–	(0.4)
Segmental operating profit	25.6	9.8	30.4	–	65.8
2006					
Total gross segment revenue	211.9	116.8	355.4	(144.2)	539.9
Inter segment revenue	(0.1)	(2.9)	(141.2)	144.2	–
Revenue	211.8	113.9	214.2	–	539.9
Segmental operating profit before exceptional items	25.1	12.5	22.6	–	60.2
Exceptional items (note 3)	(0.5)	(0.2)	(1.7)	–	(2.4)
Segmental operating profit	24.6	12.3	20.9	–	57.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 Segmental analysis continued

	Africa £m	Asia £m	Europe £m	Total £m
2007				
Segment assets	200 4	93 7	246 7	540 8
Segment liabilities	(34 5)	(21 1)	(125 8)	(181 4)
Capital additions	14 2	5 6	7 6	27 4
Depreciation and amortisation	(4 1)	(3 4)	(7 0)	(14 5)
2006				
Segment assets	196 3	86 0	238 0	520 3
Segment liabilities	(31 1)	(23 2)	(127 6)	(181 9)
Capital additions	14 5	6 8	3 4	24 7
Depreciation and amortisation	(4 6)	(2 7)	(8 2)	(15 5)
Impairment losses recognised in income	-	-	(3 3)	(3 3)

For management reporting purposes the results of the prior year disposal in the USA are included in the Europe segment and hence a consistent presentation has been adopted in the above analysis

The share of results of the nutrition joint venture of £(0.8) million (2006 £(0.1) million) and investments in joint ventures of £(1.7) million (2006 nil) are included in the Africa segment in the above analysis

Business segments

The following table provides an analysis of the Group's revenue by business segment irrespective of the origin of the goods

	Revenue by business segment	
	2007 £m	2006 £m
Toiletries and household	431 6	435 8
Other	146 3	104 1
Total	577 9	539 9

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment and intangible assets analysed by the business segment in which the assets are located

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2007 £m	2006 £m	2007 £m	2006 £m
Toiletries and household	480 0	461 2	26 8	23 7
Other	60 8	59 1	0 6	1 0
Total	540 8	520 3	27 4	24 7

Trading between segments is carried out on an arm's-length basis and transactions are priced accordingly. External market prices are used where available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 Exceptional items**Year to 31st May 2007**

Exceptional items included within operating profit	Effect on	Profit before taxation £m	Taxation £m	Profit after taxation £m
Restructuring of UK operations (i)		(5.1)	1.5	(3.6)
Profit on disposal of fixed assets (ii)		4.7	(0.2)	4.5
Total		(0.4)	1.3	0.9

(i) Restructuring of UK operations

A significant restructuring of the UK business made up of redundancy and other associated restructuring costs

(ii) Profit on disposal of fixed assets

During the year the sale of the Polish head office in Warsaw resulted in an exceptional gain on disposal of £5.2 million while a net loss of £0.5 million was realised in relation to the sale of the Cameroun business due to rationalisation of the Group's smaller operations

Year to 31st May 2006

Exceptional items included within operating profit	Effect on	Profit before taxation £m	Taxation £m	Profit after taxation £m
Restructuring of UK operations (i)		(6.5)	1.6	(4.9)
Restructuring of smaller overseas operations (ii)		(3.1)	-	(3.1)
Profit on disposal of property, plant and equipment (iii)		1.9	-	1.9
Income from bad debts previously written off (iv)		5.3	(1.6)	3.7
Total		(2.4)	-	(2.4)

(i) Restructuring of UK operations

A significant restructuring of the UK business and transfer of production to Thailand consisting of redundancy and other associated restructuring costs

(ii) Restructuring of smaller overseas operations

Costs of £3.1 million in relation to the rationalisation of the Group's smaller operations, being Cameroun and USA

(iii) Profit on disposal of property, plant and equipment

During the year ended 31st May 2006 the sale of the Group's liquids and creams factory in Warsaw resulted in an exceptional gain on disposal of £1.9 million

(iv) Income from bad debts previously written off

Income of £5.3 million recognised in the year ended 31st May 2006 as a result of recoveries from the Export Credit Guarantee Department of bad debts written off several years ago which have now been recovered as a result of Nigeria's settlement with the Paris Club of creditors

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4 Profit for the year

Profit for the year has been arrived at after charging/(crediting)

	2007 £m	2006 £m
Net foreign exchange losses/(gains)	16	(0.9)
Research and development costs	45	39
Amortisation of government grants	(0.4)	(0.4)
Depreciation of property plant and equipment	14.5	15.5
Profit on disposal of property plant and equipment	(7.2)	(5.4)
Raw and packaging materials and goods purchased for resale	325.7	291.3
Operating lease rentals	1.1	1.1
Employee costs (note 5)	79.5	75.7
Auditors' remuneration (see below)	0.7	0.6

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below

	2007 £m	2006 £m
Fees payable to the company's auditors for the audit of the company's annual accounts	-	-
Fees payable to the company's auditors and their associates for other services to the Group		
The audit of the company's subsidiaries pursuant to legislation	0.4	0.4
Total audit fees	0.4	0.4
Other services pursuant to legislation		
Tax services	0.2	0.1
Other services	0.1	0.1
Total fees	0.7	0.6

Fees payable to Deloitte & Touche LLP and their associates for non-audit services to the company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis

Included in the amounts above fees were paid to the Group's auditors in respect of their audit of the Group's UK retirement benefit schemes totalling £17,000 (2006: £16,000)

5 Directors and employees**Employee costs**

The average monthly number of employees (including executive directors) was as follows

	2007 Number	2006 Number
Production	5,922	6,091
Selling and distribution	2,805	2,778
Administration	1,150	1,508
	9,877	10,377

The costs incurred in respect of the above were as follows

	2007 £m	2006 £m
Wages and salaries	66.7	64.4
Social security and other costs	6.1	5.6
Post-employment benefits	6.7	5.7
	79.5	75.7

Directors' remuneration

The costs incurred by subsidiary companies in respect of the directors who are regarded as the key management personnel were as follows

	2007 £m	2006 £m
Fees to non-executive directors	0.1	0.1
Wages and salaries*	2.1	2.3
Bonus	0.8	1.4
Benefits	0.1	0.2
Social security and other costs	0.3	0.3
Post-employment benefits	1.0	0.9
Share-based payments	0.1	0.4
Total	4.5	5.6

No directors' costs were incurred by the parent company

*In addition to the remuneration shown in the above table a director received £0.4 million in compromise of his entitlements on termination of his service contract (see report on directors' remuneration)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6 Net finance income

	2007 £m	2006 £m
Current asset investment income		
Net investment gains	0 1	2 7
Interest and dividends receivable	2 7	1 6
	2 8	4 3
Interest payable on bank loans and overdrafts	(0 7)	(0 9)
Total	2 1	3 4

7 Taxation

	2007 £m	2006 £m
Current tax	16 8	18 1
Deferred tax	1 7	0 5
Total tax charge	18 5	18 6

UK corporation tax is calculated at 30% (2006 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2007 £m	2006 £m
Profit before tax	67 9	61 2
Tax at the UK corporation tax rate of 30% (2006 30%)	20 4	18 4
Tax effect of revenue/expenses that are not (taxable)/deductible in determining taxable profit	(0 4)	1 3
Tax effect of timing differences on which deferred tax is not provided	–	(0 2)
Tax effect of utilisation of tax losses and other assets not recognised in deferred tax	(1 1)	(0 8)
Effect of different tax rates of subsidiaries in overseas jurisdictions	0 4	(0 7)
Tax effect of share of results of joint ventures	0 2	–
Sale of properties	(0 3)	–
Prior period adjustment	(0 7)	0 6
Tax charge for the year	18 5	18 6

8 Dividends

	2007 £m	2006 £m
Amounts recognised as distributions to ordinary shareholders in the year comprise		
Final dividend for the year ended 31st May 2006 of 2 95p* (2005 2 66p*) per ordinary share	12 5	11 3
Interim dividend for the year ended 31st May 2007 of 1 00p (2006 0 93p*) per ordinary share	4 2	3 9
	16 7	15 2
Amounts recognised as distributions to preference shareholders in the year comprise		
10% cumulative preference shares	–	0 1
Total amount recognised as distributions to shareholders in the year	16 7	15 3
Proposed final dividend for the year ended 31st May 2007 of 3 27p (2006 2 95p*) per share	13 9	12 5

The proposed final dividends for the years ended 31st May 2006 and 31st May 2007 were subject to approval by shareholders at the annual general meeting and hence have not been included as liabilities in these financial statements at 31st May 2006 and 31st May 2007 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

8 Dividends continued

On 29th June 2005 the A (non-voting) ordinary shares were redesignated as ordinary shares. In accordance with IAS 33 'Earnings per share' the final dividends in respect of the year ended 31st May 2005 and the interim dividends recognised in the year ended 31st May 2006 in respect of ordinary shareholders have been re-presented to include dividends on both the ordinary and 'A' (non-voting) ordinary shares.

The preference shares, which had a nominal value of £7.9 million, were fully repaid on 1st August 2005. At 31st May 2007 the Paterson Zochonis Employee Trust held 3,913,299 ordinary shares (2006: 4,972,990* ordinary shares). The trust waived any entitlement to the dividends on these shares.

*The comparative figures have been restated for the share split, on the basis of ten for one, which was approved at the last annual general meeting on 25th September 2006, such that there are now ten 1p ordinary shares for every 10p ordinary share previously in existence before the share split.

9 Earnings per share

	Year ended 31st May 2007	Year ended 31st May 2006*
Profit attributable to ordinary equity shareholders (£ million)	42.4	35.3
Basic earnings per share	9.99p	8.33p
Diluted earnings per share	9.89p	8.23p

The profit attributable to equity holders is calculated by taking the profit for the period after payment of preference dividends. There were no preference dividends paid in the year ended 31st May 2007 (2006: £0.1 million).

Basic earnings per share and diluted earnings per share are calculated by dividing profit for the period attributable to equity holders by the weighted average number of shares in issue.

	Year ended 31st May 2007	Year ended 31st May 2006*
Basic weighted average (000)	424,348	423,755
Diluted weighted average (000)	428,725	428,725

The difference between the basic and diluted weighted average number of shares represents the dilutive effect of the deferred annual share bonus scheme and the executive share option scheme. The weighted average number of shares can be reconciled to the weighted average number of shares including dilutive shares as follows:

	Year ended 31st May 2007 Number 000	Year ended 31st May 2006* Number 000
Basic weighted average ordinary shares in issue during the year	424,348	423,755
Dilutive effect of deferred annual share bonus scheme	4,377	4,970
Diluted weighted average	428,725	428,725

Adjusted earnings per share

	Year ended 31st May 2007	Year ended 31st May 2006*
Basic earnings per share	9.99p	8.33p
Exceptional items (note 3)	(0.21)p	0.57p
Adjusted basic earnings per share	9.78p	8.90p
Diluted earnings per share	9.89p	8.23p
Exceptional items (note 3)	(0.21)p	0.56p
Adjusted diluted earnings per share	9.68p	8.79p

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

9 Earnings per share continued

Adjusted basic and diluted earnings per share figures are calculated by dividing adjusted profit for the year by the weighted average number of shares in issue (as above). The adjusted profit for the year is as follows:

	2007 £m	2006 £m
Profit attributable to ordinary equity shareholders	42.4	35.3
Exceptional items (note 3)	(0.9)	2.4
Adjusted profit	41.5	37.7

*The comparative figures have been restated for the share split on the basis of ten for one which was approved at the last annual general meeting on 25th September 2006 such that there are now ten 1p ordinary shares for every 10p ordinary share previously in existence before the share split.

10 Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1st June 2005	8.8	45.3	54.1
Currency retranslation	-	(0.3)	(0.3)
Additions	-	0.2	0.2
At 31st May 2006	8.8	45.2	54.0
Currency retranslation	-	0.2	0.2
At 31st May 2007	8.8	45.4	54.2

Intangible assets include the Group's acquired brands: Charles Worthington, Original Source and Trix.

Goodwill and intangible assets, which have indefinite useful lives, are subject to annual impairment testing, or more frequent testing if there are indications of impairment. The recoverable amounts of the cash-generating units (CGUs) are determined from value-in-use calculations that use amounts from approved budgets and plans over a period of 5 years (2006: 5 years) and cash flows projected forward assuming no growth in year 6 onwards. The discount rate applied to the cashflow projections was 8.5% (2006: 8.5%). The average growth rate applied to the initial five-year period of 10% (2006: 11%) was based on industry growth rates.

Intangible assets and goodwill are allocated to the appropriate CGU identified, which is directly driven by the brand of product. The net book value of goodwill and intangible assets by these CGUs was as follows:

	Year ended 31st May 2007 £m	Year ended 31st May 2006 £m
Original Source	9.8	9.8
Charles Worthington	38.1	38.1
Trix	6.1	5.9
Other	0.2	0.2
Total	54.2	54.0

There were no impairments of goodwill or intangible assets identified during the year or the prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

11 Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and vehicles £m	Assets in course of construction £m	Total £m
Cost					
At 1st June 2005	79.8	141.9	29.1	10.8	261.6
Currency retranslation	0.6	0.2	0.2	(0.1)	0.9
Additions	0.3	1.0	2.5	20.9	24.7
Disposals	(3.2)	(9.9)	(2.4)	-	(15.5)
Reclassifications	3.6	10.8	1.8	(16.2)	-
At 31st May 2006	81.1	144.0	31.2	15.4	271.7
Currency retranslation	(1.0)	(0.4)	-	(0.6)	(2.0)
Additions	3.5	7.5	3.2	13.2	27.4
Disposals	(5.2)	(2.5)	(4.1)	-	(11.8)
Reclassifications	0.7	5.1	0.8	(6.6)	-
At 31st May 2007	79.1	153.7	31.1	21.4	265.3
Depreciation and amounts written off					
At 1st June 2005	1.9	98.8	21.6	-	122.3
Currency retranslation	-	(0.1)	-	-	(0.1)
Charge for the year	1.9	10.1	3.5	-	15.5
Disposals	(0.2)	(8.7)	(1.8)	-	(10.7)
Impairment charge	-	3.3	-	-	3.3
At 31st May 2006	3.6	103.4	23.3	-	130.3
Charge for the year	1.9	8.8	3.8	-	14.5
Disposals	(0.2)	(1.5)	(3.6)	-	(5.3)
At 31st May 2007	5.3	110.7	23.5	-	139.5
Net book values					
At 31st May 2007*	73.8	43.0	7.6	21.4	145.8
At 31st May 2006*	77.5	40.6	7.9	15.4	141.4
At 31st May 2005	77.9	43.1	7.5	10.8	139.3

At 31st May 2007 the Group had entered into commitments for the acquisition of property plant and equipment amounting to £2.4 million (2006 £4.4 million). At 31st May 2007, the Group had entered into capital commitments of £3.4 million (2006 £0.2 million) in relation to its interests in joint ventures and the Group's share in the capital commitments of the joint venture was £1.7 million (2006 £0.1 million).

Included in the assets above are £2.6 million (2006 £1.3 million) of assets which have been categorised as non-current assets held for sale. The directors' expectation is that the assets which are included in the European segment and which predominantly relate to manufacturing sites in the UK will be sold within 12 months of the balance sheet date. The assets were being actively marketed at 31st May 2007. There was no adjustment to the carrying value of these assets on categorisation as held for sale.

*This comprises £143.2 million (2006 £140.1 million) classed as property plant and equipment and £2.6 million (2006 £1.3 million) classed as non-current assets held for sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12 Investments in joint ventures

	£m	
Cost		
At 1st June 2005		0.1
Share of result for the year		(0.1)
At 31st May 2006		–
Share of result for the year recognised in equity		(0.9)
Share of result for the year taken to the income statement		(0.8)
At 31st May 2007		(1.7)
	2007	2006
	£m	£m
Aggregated amounts relating to joint ventures		
Total assets	36.0	25.8
Total liabilities	(39.5)	(25.8)
Revenues	34.4	18.3
Loss	(1.6)	(0.2)

The Group accounts for joint ventures using the equity method. A list of the significant investments in joint ventures, including the name, country of incorporation and proportion of ownership interest is given in note 31.

13 Other investments

Non-current asset investments comprise a 31% investment in Norpalm Ghana Limited, a palm oil plantation in Ghana (note 31). The Group does not exercise significant influence over the affairs of this company as it does not have the power to participate in the financial and operating policies of the entity and it is therefore not treated as an associated company. The directors consider the historical cost of the investment to be representative of its fair value at both 31st May 2006 and 31st May 2007.

14 Inventories

	2007	2006
	£m	£m
Raw materials and consumables	87.8	78.5
Work in progress	2.9	3.3
Finished goods and goods for resale	59.7	60.9
	150.4	142.7

During the year ended 31st May 2007, £1.6 million (2006: £2.7 million) was charged to the income statement for damaged and obsolete inventories.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

15 Receivables and prepayments**Receivables due within one year**

	2007 £m	2006 £m
Trade receivables	65.7	58.8
Amounts owed by joint ventures	16.1	11.8
Overseas taxation recoverable	0.6	0.8
Other receivables, including deposits	8.5	9.4
Prepayments and accrued income	7.4	6.4
	98.3	87.2

Receivables due after more than one year

	2007 £m	2006 £m
Other receivables	0.1	0.1

The Group's credit risk is primarily attributable to its trade receivables. The amounts shown in the balance sheet are net of allowances for doubtful receivables which totalled £4.4 million at 31st May 2007 (2006: £4.6 million). Trade receivables do not carry interest. Allowances are estimated by management based on past default experience and their assessment of the current economic environment. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers in a number of different countries.

The average credit period taken on sales ranges from 17 to 91 days (2006: 16 to 84 days) due to the differing nature of trade receivables in the Group's geographical segments.

The directors consider the carrying amount of trade and other receivables approximates their fair value.

16 Current asset investments

	2007 £m	2006 £m
Listed (market value)	0.3	-
Unlisted	12.5	2.2
	12.8	2.2

17 Cash and short-term deposits

	2007 £m	2006 £m
Cash at bank and in hand	21.2	25.9
Deposits	32.1	39.9
Cash and short-term deposits	53.3	65.8
Less: bank overdrafts (included in borrowings note 18)	(3.2)	(11.9)
Cash and cash equivalents	50.1	53.9

The effective interest rate on short-term deposits during the year ended 31st May 2007 was 7.6% (2006: 3.4%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

18 Borrowings

	2007	2006
	£m	£m
Bank loans and overdrafts due within one year	5 8	14 0
Bank loans and overdrafts due after one year	–	2 1
	5 8	16 1

The borrowings are repayable as follows

	2007	2006
	£m	£m
Within one year	5 8	14 0
From one to two years	–	2 1
	5 8	16 1

On total borrowings interest rates are 9.4% (2006: 4.95%) on £2.2 million (2006: £4.2 million) of borrowings with floating rates on £3.6 million (2006: £11.9 million)

Bank overdrafts are repayable on demand. The weighted average rate of interest on bank overdrafts was 12.9% (2006: 7.3%). Bank overdrafts are at floating rates of interest and hence expose the Group to cashflow interest rate risk.

At 31st May 2007 the Group had undrawn overdraft facilities of £60 million (2006: £93 million) available to it.

The Group's borrowings were denominated in the following currencies:

	2007	2007	2007	2007	2007
	Sterling	Thai Baht	Naira	Other	Total
	£m	£m	£m	£m	£m
Analysis of borrowings by currency					
Bank overdrafts	–	–	3 0	0 2	3 2
Bank loans	–	2 6	–	–	2 6
	–	2 6	3 0	0 2	5 8

	2006	2006	2006	2006	2006
	Sterling	Thai Baht	Naira	Other	Total
	£m	£m	£m	£m	£m
Analysis of borrowings by currency					
Bank overdrafts	9 0	–	2 8	0 1	11 9
Bank loans	–	4 2	–	–	4 2
	9 0	4 2	2 8	0 1	16 1

The functional currency of the majority of Group entities is local currency. Debt raised in currencies other than sterling is, in most cases, raised in the functional currency of the entity raising the debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

18 Borrowings continued**Financial instruments and risk management**

The primary financial risk faced by the Group is exchange rate risk. The board has reviewed and agreed policies for management of this risk as summarised below. The board has also approved all of the classes of financial instruments that may be used by the Group. The Group's treasury function, which is authorised to conduct the day-to-day treasury activities of the Group, reports at least annually to the board. The occasional use of financial derivatives is governed by the Group's policies approved by the board, which provide written principles on the use of financial derivatives.

All of the Group's activities involve analysis, acceptance and management of some degree of risk or combination of risks. The most important types of financial risk are credit risk, liquidity risk and market risk. Market risks include foreign exchange, interest rate and equity price risks.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and limits continually by means of reliable and up-to-date systems. The Group modifies and enhances its risk management policies and systems to reflect changes in markets and products. The audit committee, under authority delegated by the board, formulates high level Group risk management policy, monitors risk and receives reports that allow it to review the effectiveness of the Group's risk management policies.

Credit risk management

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from lending, trade finance, treasury and leasing activities. The Group has dedicated standards, policies and procedures to control and monitor all such risks. Although the Group is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is controlled through credit rating reviews of the counterparties and by limiting the total amount of exposure to any one party. The Group does not believe it is exposed to any material concentrations of credit risk.

Liquidity management

The Group maintains a strong liquidity position and manages the liquidity profile of its assets, liabilities and commitments so that cashflows are appropriately balanced and all funding obligations are met when due.

Market risk management

Market risk is the risk that movements in market rates, including foreign exchange rates, interest rates, equity and commodity prices will reduce the Group's income or the value of its portfolios. The management of market risk is undertaken using risk limits approved by the finance directors under delegated authority.

The Group's activities expose it to the financial risks of changes in foreign currency exchange rates. However, subsidiary undertakings only occasionally make significant sales or purchases in currencies other than their functional currencies and hence on rare occasions the Group enters into foreign currency forward contracts to manage these exposures.

The Group did not enter into any material derivative instruments during the year or the prior year and there were no open derivative instruments at 31st May 2007 or 31st May 2006.

Financial instruments utilised by the Group during the years ended 31st May 2007 and 31st May 2006, together with information regarding the methods and assumptions used to calculate fair values, can be summarised as follows:

Current and non-current investments

In accordance with IAS 39 Financial Instruments - Recognition and measurement, unlisted investments are held in the Group's balance sheet at cost because their fair value cannot be measured reliably due to the lack of quoted market prices.

The carrying value of the Group's listed investments, which are classified as held-for-trading, is £0.3 million (2006: nil).

Current assets and liabilities

Financial instruments included within current assets and liabilities (excluding cash and borrowings) are generally short-term in nature and accordingly their fair values approximate to their book values.

Borrowings and cash

The carrying values of cash and short-term borrowings approximate to their fair values because of the short-term maturity of these instruments. The fair value of long-term borrowings at 31st May 2007 is estimated to not be materially different to its carrying value.

The financial instruments held by the Group do not, either individually or as a class, create a potentially significant exposure to market, credit, liquidity or cash flow interest rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

19 Trade and other payables

	2007 £m	2006 £m
Trade creditors	45.8	41.4
Amounts owed to joint ventures	3.5	0.2
Overseas income tax	6.1	5.3
Other taxation and social security	2.3	2.9
Other creditors	7.1	10.1
Accruals and deferred income	30.9	23.9
	95.7	83.8

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 46 days (2006: 46 days).

The directors consider the carrying amount of trade and other payables approximates their fair value.

20 Other liabilities

	2007 £m	2006 £m
Other creditors	1.4	2.1
Accruals and deferred income	–	1.5
	1.4	3.6

21 Deferred tax

	Property, plant and equipment £m	Retirement benefit obligations £m	Revaluation of property, plant and equipment £m	Other timing differences £m	Business combinations £m	Share- based payments £m	Total £m
At 1st June 2005	(9.3)	2.8	(15.6)	4.9	(8.8)	0.1	(25.9)
Charge to income	0.1	–	–	(0.7)	–	0.1	(0.5)
Charge to equity	–	0.8	1.0	–	–	–	1.8
Currency translation	0.1	–	(0.1)	–	–	–	–
At 1st June 2006	(9.1)	3.6	(14.7)	4.2	(8.8)	0.2	(24.6)
Charge to income	(1.9)	(0.3)	–	0.5	–	–	(1.7)
Charge to equity	–	2.4	1.7	–	–	–	4.1
Currency translation	0.9	–	0.7	0.5	–	–	2.1
At 31st May 2007	(10.1)	5.7	(12.3)	5.2	(8.8)	0.2	(20.1)

Certain deferred tax assets and liabilities have been offset in accordance with IAS 12 'Income taxes'. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

	2007 £m	2006 £m
Deferred tax assets	4.3	4.6
Deferred tax liabilities	(24.4)	(29.2)
	(20.1)	(24.6)

At the balance sheet date, the Group has unused tax losses of £1.1 million (2006: £6.5 million) available for offset against future profits. No deferred tax asset (2006: £0.5 million) has been recognised in respect of these losses on the basis of future expected profitability. Of the £1.1 million (2006: £6.0 million) of unrecognised deferred tax assets, £1.1 million (2006: £4.5 million) is not expected to expire. Temporary differences arising in connection with interests in associates and joint ventures are not significant.

The 2007 budget announced a decrease in the corporation tax rate from 30% to 28%. This change was substantively enacted in June 2007 and will impact on the deferred tax calculations of the Group. In addition, the budget announced the phasing out of Industrial Building Allowances (IBAs) over the next 4 years (3% from April 2008, 2% from April 2009, 1% from April 2010 and 0% from April 2011). To pave the way for abolition, balancing adjustments and the recalculation of writing down allowances in respect of balancing events occurring on or after 21st March 2007 are withdrawn, other than in certain limited circumstances. These allowance changes have not yet been enacted. The directors are currently assessing the impact of these changes for the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

22 Provisions

	Retirement benefits and similar obligations £m	Others £m	Total £m
At 1st June 2006	7.5	2.5	10.0
Currency retranslation	(0.3)	–	(0.3)
Income statement	3.8	2.9	6.7
Other movement	0.3	(0.3)	–
Utilised in the year	(5.2)	(1.2)	(6.4)
At 31st May 2007	6.1	3.9	10.0

Other provisions at 31st May 2007 include UK restructuring and other provisions of £3.8 million (2006: £1.9 million) which are expected to be predominantly utilised in the next 12 months. Of the retirement benefits provision £3.5 million (2006: nil) is expected to be utilised in the next 12 months.

23 Retirement benefits**(a) Overview**

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

The following three defined benefit schemes are the Group's main schemes, which are based and administered in the UK:

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

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

The Group also operates an unfunded, unapproved retirement benefit scheme. The cost of the unfunded, unapproved retirement benefit scheme is included in the total pension cost, on a basis consistent with IAS 19 Employee benefits, and the assumptions set out below. In accordance with these unfunded arrangements, the Group made no payments to former directors in the year ended 31st May 2007 (2006: £0.2 million).

The last triennial actuarial valuations of the schemes administered in the UK were performed by independent professional actuaries at 1st June 2006 using the projected unit method of valuation.

The Group's balance sheet at 31st May 2007 reflects a pension surplus of £23.1 million (2006: £23.4 million) in respect of the Expatriate plan and combined deficits in the Staff and Directors' plans of £28.9 million (2006: £24.8 million) and £8.3 million (2006: £5.7 million) respectively.

For the year to 31st May 2007, the total defined benefit pension cost arising from the three schemes amounted to £2.9 million (2006: £3.4 million).

The major financial assumptions used by the actuary were as follows:

	31st May 2007	31st May 2006
Rate of increase in salaries	4.10%	3.70%
Rate of increase in retirement benefits in payment	3.10%	2.70%
Discount rate	5.20%	5.10%
Inflation assumption	3.10%	2.70%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

23 Retirement benefits continued

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

	31st May 2007 £m	31st May 2006 £m	31st May 2005 £m
Equities	6.90% 130.0	6.70% 117.7	6.40% 97.2
Bonds	4.70% 90.8	4.50% 93.5	4.20% 90.4
Cash	5.00% 8.4	4.25% 3.8	4.00% 7.1
Total fair value of scheme assets	229.2	215.0	194.7
Present value of scheme liabilities	(243.3)	(222.1)	(199.5)
Deficit in the schemes	(14.1)	(7.1)	(4.8)
Related deferred tax asset	4.2	2.1	1.5
Net retirement benefit deficit	(9.9)	(5.0)	(3.3)

To develop the expected long-term rate of return on assets assumptions, the company considered the level of expected returns on risk-free investments, the historical level of the risk premium associated with the other asset class in which the portfolio is invested, and the expectations for future returns of each class of asset. The expected return for each class of asset was then weighted based on the actual asset allocation to develop the expected long-term return on assets assumption for the portfolio. The actual return on plan assets was £17.6 million (2006: £21.9 million).

The net retirement benefit expense before taxation recognised in the income statement in respect of the defined benefit schemes is summarised as follows:

	31st May 2007 £m	31st May 2006 £m
Current service cost	(4.4)	(4.8)
Past service cost	(0.2)	(0.5)
Expected return on scheme assets	12.1	10.3
Interest cost	(11.3)	(10.2)
Curtailment gain	0.9	1.8
Net retirement benefit expense before taxation	(2.9)	(3.4)

All above amounts are recognised in the Group's income statement before arriving at operating profit.

The reconciliation of the opening and closing balance sheet position is as follows:

	Year to 31st May 2007 £m	Year to 31st May 2006 £m
Deficit at beginning of year	(7.1)	(4.8)
Expenses recognised in the consolidated income statement	(2.9)	(3.4)
Contributions paid	4.1	4.7
Net return on assets/liabilities	(0.1)	0.2
Actuarial loss	(8.1)	(3.8)
Net deficit at end of year	(14.1)	(7.1)
Analysed between		
Retirement benefit surplus	23.1	23.4
Retirement benefit obligation	(37.2)	(30.5)

Actuarial gains and losses are recognised directly in the statement of recognised income and expense. At 31st May 2007, a cumulative pre-tax loss of £15.5 million (2006: £7.4 million) was recorded directly in the statement of recognised income and expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

23 Retirement benefits continued

Movements in the fair value of plan assets were as follows

	Assets Year to 31st May 2007 £m	Assets Year to 31st May 2006 £m
1st June	215 0	194 7
Expected return on assets	12 1	10 3
Actuarial gains	5 5	11 6
Employer contribution	4 1	4 7
Member contributions	1 2	1 3
Benefits paid	(8 7)	(7 6)
31st May	229 2	215 0

Movements in the present value of the defined benefit obligations were as follows

	Obligations Year to 31st May 2007 £m	Obligations Year to 31st May 2006 £m
1st June	(222 1)	(199 5)
Current service cost	(4 4)	(4 8)
Interest cost	(11 3)	(10 2)
Plan participants' contributions	(1 2)	(1 3)
Past service cost	(0 2)	(0 5)
Actuarial losses	(13 7)	(15 2)
Curtailment gain	0 9	1 8
Benefits paid	8 7	7 6
31st May	(243 3)	(222 1)
Plans that are wholly or partly funded	(240 6)	(219 7)
Plans that are wholly unfunded	(2 7)	(2 4)
	(243 3)	(222 1)

The history of the plan for the current and prior years is as follows

	2007	2006	2005
Difference between expected and actual return on scheme assets			
Amount (£m)	5 5	11 6	10 5
Percentage of scheme assets	2%	5%	5%
Experience gains and losses on scheme liabilities			
Amount (£m)	(1 6)	3 5	0 1
Percentage of scheme liabilities	(1%)	2%	0%
Total amount recognised in statement of recognised income and expense			
Amount (£m)	(5 6)	(3 8)	(3 6)
Percentage of scheme liabilities	(2%)	(2%)	(2%)

During the year ending 31st May 2008 the Group currently expects to make cash contributions of £3.4 million (2007: £4.4 million) to funded defined benefit plans. This includes mandatory and discretionary payments. In addition, a further £2.1 million (2007: £2.6 million) is expected to be contributed to defined contribution plans.

The amount recognised as an expense in the consolidated income statement in relation to defined contribution schemes is £1.8 million (2006: £2.0 million).

Other significant schemes

In addition to the UK schemes the Group operates a significant post-employment scheme in Nigeria, the Nigerian Gratuity scheme. This scheme allows eligible members to accrue benefits over their employment based on their final salary. The Group provides for the liability in accordance with IAS 19. The provision at 31st May 2007 was £3.5 million (2006: £5.1 million) and has been included in provisions in the Group balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

24 Share capital

	2007		2006	
	Number 000	Amount £m	Number 000	Amount £m
Authorised				
Ordinary shares				
Ordinary shares of 1p* each	570,000	5.7	570,000	5.7
Total authorised share capital	570,000	5.7	570,000	5.7
Allotted, called up and fully paid				
Ordinary shares				
Ordinary shares of 1p* each	428,725	4.3	428,725	4.3
Total called up share capital	428,725	4.3	428,725	4.3

*The comparative figures have been restated for the share split on the basis of ten for one which was approved at the last annual general meeting on 25th September 2006 such that there are now ten 1p ordinary shares for every 10p ordinary share previously in existence before the share split

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25 Statement of changes in shareholders' equity

	Share capital	Revaluation reserve	Currency translation reserve	Capital redemption reserve	Retained earnings	Other reserve	Minority interests	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 31st May 2005	12 0	28 1	5 5	0 7	245 8	(1 1)	37 0	328 0
Adoption of IAS 39	-	-	-	-	2 0	-	-	2 0
At 1st June 2005	12 0	28 1	5 5	0 7	247 8	(1 1)	37 0	330 0
Net income recognised for the period	-	-	-	-	35 4	-	7 2	42 6
Currency retranslation	-	-	(2 2)	-	-	-	(0 2)	(2 4)
Ordinary dividends	-	-	-	-	(15 2)	-	-	(15 2)
Preference dividends	-	-	-	-	(0 1)	-	-	(0 1)
Realisation of revaluation surplus	-	(1 8)	-	-	1 8	-	-	-
Release of deferred tax provision on disposed properties	-	0 3	-	-	-	-	-	0 3
Change in deferred tax liability on revalued properties	-	0 7	-	-	-	-	-	0 7
Shares purchased for ESOT	-	-	-	-	-	(2 6)	-	(2 6)
Shares to be awarded from ESOT	-	-	-	-	-	0 8	-	0 8
Share-based payments	-	-	-	-	0 4	-	-	0 4
Minority interest dividend paid	-	-	-	-	-	-	(2 9)	(2 9)
Actuarial losses on defined benefit schemes	-	-	-	-	(3 8)	-	-	(3 8)
Tax on actuarial losses on defined benefit schemes	-	-	-	-	0 8	-	-	0 8
Compensatory bonus issue	0 2	-	-	-	(0 2)	-	-	-
Repayment of preference share capital	(7 9)	-	-	-	(7 6)	-	-	(15 5)
Increased investment	-	-	-	-	-	-	5 3	5 3
At 1st June 2006	4 3	27 3	3 3	0 7	259 3	(2 9)	46 4	338 4
Net income recognised for the period	-	-	-	-	42 4	-	7 0	49 4
Currency retranslation	-	0 1	(2 4)	-	-	-	(1 7)	(4 0)
Ordinary dividends	-	-	-	-	(16 7)	-	-	(16 7)
Share-based payments	-	-	-	-	(0 1)	-	-	(0 1)
Realisation of revaluation surplus	-	(0 3)	-	-	0 3	-	-	-
Release of deferred tax provision on disposed properties	-	0 1	-	-	-	-	-	0 1
Change in deferred tax liability on revalued properties	-	2 4	-	-	-	-	(0 8)	1 6
Shares purchased for ESOT	-	-	-	-	-	(0 5)	-	(0 5)
Shares to be awarded from ESOT	-	-	-	-	-	0 4	-	0 4
Minority interest dividend paid	-	-	-	-	-	-	(3 3)	(3 3)
Actuarial losses on defined benefit schemes	-	-	-	-	(8 3)	-	-	(8 3)
Tax on actuarial losses on defined benefit schemes	-	-	-	-	2 4	-	-	2 4
At 31st May 2007	4 3	29 6	0 9	0 7	279 3	(3 0)	47 6	359 4

The revaluation reserve arises from the Group's decision to adopt the transitional provisions of IFRS 1 'First-time adoption of IFRS' and to treat the previous revalued amounts in relation to properties as deemed cost at 1st June 2004 the date of transition to IFRS

In the prior period amounts in respect of the redemption of preference share capital were transferred from a special reserve to retained earnings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26 Other reserve

	Shares held in trust Number (000)	Cost £m	Charged to income statement £m	Net book value £m
At 31st May 2005*	4 560	4.4	(3.3)	1.1
Compensatory bonus issue	240	-	-	-
Shares purchased	1,420	2.6	-	2.6
Shares transferred out	(1 250)	-	-	-
Shares to be awarded	-	-	(0.8)	(0.8)
At 31st May 2006*	4 970	7.0	(4.1)	2.9
Shares purchased	320	0.5	-	0.5
Shares transferred out	(1 380)	-	-	-
Shares to be awarded	-	-	(0.4)	(0.4)
At 31st May 2007	3,910	7.5	(4.5)	3.0

The Group's other reserve relates to the Employee Share Option Trust (ESOT)

The ESOT purchases shares to fund the deferred annual share bonus scheme details of which are provided in the report on directors remuneration. These shares are to be awarded for the achievement of annual targets, and are normally received by directors after three years of continuing employment from the date of grant. At 31st May 2007 the trust held 3,913 299 (2006 4 972 990*) ordinary shares with a market value of £6.7 million (2006 £7.2 million). The trust has waived any entitlement to dividends in respect of all the shares it holds.

*The comparative figures have been restated for the share split on the basis of ten for one which was approved at the last annual general meeting on 25th September 2006 such that there are now ten 1p ordinary shares for every 10p ordinary share previously in existence before the share split.

27 Reconciliation of profit before tax to cash generated from operations

	2007 £m	2006 £m
Profit before tax	67.9	61.2
Adjustment for finance income	(2.1)	(3.4)
Operating profit	65.8	57.8
Depreciation and adjustments on disposals	7.3	10.1
Share of results from joint ventures	0.8	-
Loss on sale or termination of operations	0.5	-
Add back charge for ESOT shares to be awarded	0.4	0.8
Impairment of tangible fixed assets	-	3.3
Operating cash flows before movements in working capital	74.8	72.0
Movements in working capital		
Inventories	(12.6)	(14.0)
Receivables	(11.0)	(18.2)
Payables	7.2	(1.9)
Provisions	0.3	(2.1)
Cash generated from operations	58.7	35.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

28 Operating lease commitments

At the balance sheet date the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases over certain of its office properties which fall due as follows

	2007	2006
	£m	£m
Within one year	1 1	1 1
In the second to fifth years inclusive	2 0	3 1

Leases are subject to a review date of 2010

29 Share-based payments

The company operates a share option scheme for senior executives. Options are exercisable at a price equal to the average quoted market price of the company's shares on the dealing day before the option is granted. Options are forfeited if the employee leaves the Group for any reason outside of the scheme rules. Options under the scheme are exercisable in a period beginning no earlier than three years from the date of grant and are subject to performance conditions.

Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of a Black-Scholes model according to the relevant measures of performance. The model includes adjustments based on management's best estimate for the effects of exercise restrictions, behavioural considerations and expected dividend payments. The option life is derived by the models based on these assumptions and other assumptions identified below. The expected volatility has been estimated using company specific data, unlike the prior period where industry data was used. The total expense included within operating profit in respect of share-based payments was £0.1 million (2006: £0.4 million).

For those share option awards that were granted in the years ended 31st May 2007 and 31st May 2006, the assumptions used in the calculation of the fair values were as follows:

	Year to	Year to
	31st May	31st May
	2007	2006
Vesting period	3 yrs	3 yrs
Expected volatility	12.0%	26.0%
Expected option life after anticipated lapses	3 yrs	3 yrs
Risk-free rate	3%	3%
Expected dividend yield	2.68%	2.68%
Fair value per share (p)	6.8	6.8

Expected volatility was determined by calculating the historic volatility of the Group's share price over the previous 4 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The dividend yield for 2006 was used for 2007 as the dividend for 2007 had not been approved at the AGM at the time the accounts were published.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

29 Share-based payments continued

The movement in total outstanding options in respect of the share option scheme is provided below

	Number of share options	Weighted average exercise price £
Outstanding at 1st June 2005*	5,006,360	0.9
Granted	1,253,390	1.3
Exercised	(186,140)	0.7
Lapsed	(586,420)	0.9
Outstanding at 31st May 2006*	5,487,190	1.0
Exercisable at 31st May 2006*	-	-
Outstanding at 1st June 2006*	5,487,190	1.0
Granted	1,444,990	1.4
Exercised	(67,641)	0.8
Outstanding at 31st May 2007	6,864,539	1.1
Exercisable at 31st May 2007	245,110	0.7

	Price/share £	Weighted average exercise price £
Range of prices		
31st May 2007	0.7-1.4	1.1
31st May 2006*	0.7-1.3	1.0

	Number of share options	Weighted average contract term (years)
Weighted average contractual remaining life		
31st May 2007	6,864,539	2.6
31st May 2006*	5,487,190	3.1

There were no options outstanding at 31st May 2007 or 31st May 2006 that are outside of the scope of IFRS 2 'Share-based payments'

*The comparative figures have been restated for the share split on the basis of ten for one which was approved at the last annual general meeting on 25th September 2006 such that there are now ten 1p ordinary shares for every 10p ordinary share previously in existence before the share split

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

30 Related party transactions

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

At 31st May 2007 the outstanding balance receivable from Milk Ventures (UK) Ltd was £13.3 million (2006: £7.7 million). At 31st May 2007 the Group had no outstanding balance payable to Milk Ventures (UK) Ltd (2006: £0.2 million).

The Group sourced and then sold fixed assets and raw materials to Nutricima Ltd to the value of £30.7 million (2006: £20.8 million). At 31st May 2007 the amount outstanding from Nutricima Ltd was £2.8 million (2006: £4.1 million).

Nutricima Ltd sold £34.9 million (2006: £18.3 million) of goods to PZ Cussons Nigeria Plc. The amount outstanding from PZ Cussons Nigeria Plc at 31st May 2007 was £3.5 million (2006: nil).

All trading balances will be settled in cash.

There were no provisions for doubtful related party receivables at 31st May 2007 (2006: nil) and no charges to the income statement in respect of doubtful related party receivables (2006: nil).

31 Subsidiaries, joint ventures and non-current asset investments

Details of the company's subsidiaries at 31st May 2007 are as follows:

Company	Operation	Incorporated in	Parent company's interest	Proportion of voting interest
PZ Cussons Australia Pty Ltd	Manufacturing	Australia	100%	100%
PZ Cussons Middle East and South Asia FZE	Distribution	Dubai	100%	100%
Charles Worthington Hair and Beauty Ltd	Holding Company	England	*100%	*100%
FC Ltd	Manufacturing	England	100%	100%
PZ Cussons (Holdings) Ltd	Holding company	England	*100%	*100%
PZ Cussons (International) Ltd	Provision of services to Group companies	England	*100%	*100%
PZ Cussons (UK) Ltd	Manufacturing	England	100%	100%
PZ Cussons Ghana Ltd	Holding company	Ghana	90%	90%
Minerva SA	Manufacturing	Greece	*100%	*100%
PT PZ Cussons Indonesia	Manufacturing	Indonesia	100%	100%
PZ Cussons East Africa Ltd	Manufacturing	Kenya	100%	100%
HPZ Ltd ¹	Manufacturing	Nigeria	46%	46%
PZ Cussons Nigeria Plc ²	Manufacturing	Nigeria	61%	61%
PZ Cussons Polska SA	Manufacturing	Poland	99%	99%
PZ Cussons (Thailand) Ltd	Manufacturing	Thailand	100%	100%

¹HPZ Ltd is 75% owned by PZ Cussons Nigeria Plc and is therefore consolidated.

²PZ Cussons Nigeria Plc was formerly called Paterson Zochonis Industries Plc.

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

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

Non-current asset investments		Incorporated in	Parent company's interest
Norpalm Ghana Ltd	Manufacturing	Ghana	31%

*Shares held by the parent company

¹Shares held by a subsidiary

FIVE YEAR FINANCIAL RECORD

Year to 31st May	2007	IFRS	2005	UK GAAP	
	£m	2006 £m	£m	2004 £m	2003 £m
Operating profit before exceptional items	66.2	60.2	53.5	54.1	54.7
Net investment income/(interest payable)	2.1	3.4	4.6	4.7	(3.5)
Profit before taxation and exceptional items	68.3	63.6	58.1	58.8	51.2
Exceptional items	(0.4)	(2.4)	(4.7)	1.2	–
Profit before taxation	67.9	61.2	53.4	60.0	51.2
Taxation	(18.5)	(18.6)	(18.3)	(18.2)	(16.9)
Profit for the year	49.4	42.6	35.1	41.8	34.3
Attributable to					
Equity holders of the parent	42.4	35.4	28.8	38.3	30.6
Minority interests	7.0	7.2	6.3	3.5	3.7
Net assets attributable to ordinary shareholders	311.8	292.0	291.0	259.6	243.4
Per ordinary share					
Basic earnings*	9.99p	8.33p	6.60p	8.86p	6.84p
Adjusted basic earnings*	9.78p	8.90p	7.85p	8.15p	6.84p
Dividend (interim and final declared post year-end)*	4.27p	3.88p	3.53p	3.20p	2.90p
Times cover – after exceptional items*	2.3	2.1	1.9	2.8	2.4
Times cover – before exceptional items*	2.3	2.3	2.2	2.5	2.4
Net assets*	72.72p	68.10p	71.40p	63.70p	59.80p

The amounts disclosed for 2004 and earlier periods are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRS. The significant changes on adoption of IFRS can be found on the Group website www.pzcussons.com

On 29th June 2005 the 'A' (non-voting) ordinary shares were redesignated as ordinary shares. There was also a compensatory bonus to ordinary shareholders on the basis of one new ordinary share for every ten ordinary shares held. In accordance with IAS 33 'Earnings per share' the comparative figures have been re-presented to include both the ordinary and 'A' ordinary shares.

*The comparative figures have been restated for the share split on the basis of ten for one, which was approved at the last annual general meeting on 25th September 2006 such that there are now ten 1p ordinary shares for every 10p ordinary share previously in existence before the share split.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PZ CUSSONS PLC

We have audited the parent company financial statements of PZ Cussons Plc for the year ended 31st May 2007 which comprise the balance sheet and the related notes 1 to 9. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of PZ Cussons Plc for the year ended 31st May 2007 and on the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the directors' report is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the annual report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company 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 parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the company's affairs as at 31st May 2007
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985 and
- the information given in the directors' report is consistent with the parent company financial statements



DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
Manchester, United Kingdom
31st July 2007

COMPANY BALANCE SHEET

At 31st May 2007

	Notes	2007 £m	2006 £m
Fixed assets			
Investments			
Subsidiary companies	3	120.1	120.1
		120.1	120.1
Current assets			
Debtors falling due within one year	4	45.1	40.0
Investments	5	10.1	8.6
Cash at bank and in hand		–	2.8
		55.2	51.4
Creditors – amounts falling due within one year	6	(104.0)	(84.8)
Net current liabilities		(48.8)	(33.4)
Total assets less current liabilities		71.3	86.7
Creditors – amounts falling due after one year	6	(7.0)	(7.8)
Net assets		64.3	78.9
Capital and reserves			
Equity ordinary share capital	7	4.3	4.3
Reserves attributable to equity interests			
Capital redemption reserve	8	0.7	0.7
Profit and loss account	8	62.3	76.8
Other reserve	9	(3.0)	(2.9)
Total shareholders' funds		64.3	78.9

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

A J GREEN
31st July 2007

G A KANELIS



NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 Basis of preparation

The accounts have been prepared in accordance with the Companies Act 1985 and United Kingdom Generally Accepted Accounting Practice (UK GAAP), under the historical cost convention. As permitted by section 230 of the Companies Act 1985, an entity profit and loss account is not included as part of the published consolidated financial statements of PZ Cussons Plc. The profit for the financial year dealt with in the accounts of the parent company is £2.2 million (2006: £1.0 million loss).

No cash flow statement has been included as the cash flows of the company are included in the consolidated financial statements of PZ Cussons Plc which are publicly available. The consolidated financial statements of PZ Cussons Plc have been prepared in accordance with International Financial Reporting Standards.

The company has no employees (2006: nil). No costs were incurred by the company in respect of employees or directors (2006: nil). Amounts paid to the company's auditors in respect of the statutory audit were £5,000 (2006: £5,000).

Accounting policies

The principal accounting policies applied under UK GAAP are detailed below. They have all been applied consistently throughout the year and the preceding year.

Foreign currencies

Assets and liabilities are translated at exchange rates prevailing at the date of the company balance sheet.

Taxation and deferred taxation

Current tax including UK corporation tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax or a right to pay less tax at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of these assets, nor on unremitted earnings where there is no binding commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Borrowing costs

Borrowing costs are not capitalised; they are recognised in profit or loss in the period in which they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

Borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis through the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent they are not settled in the period in which they arise.

The company has not entered into any transactions involving derivative instruments.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Current asset investments

Investments (other than interests in joint ventures) are recognised and derecognised on a trade date when a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments are classified as either held-to-maturity, held-for-trading, loans and receivables or available-for-sale. Held-to-maturity investments and loans and receivables are measured at amortised cost. Held-for-trading and available-for-sale investments are measured at subsequent reporting dates at fair value. Where securities are held-for-trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

Investments in subsidiaries

Investments in subsidiaries are held at cost, less any provision for impairment.

Critical accounting policies and estimation uncertainties

None of the above accounting policies are considered to be critical to the financial statements of the company. There are no significant areas of estimation uncertainty.

New accounting policies

The company has not adopted any new United Kingdom Financial Reporting Standards in the year and there are none in issue but not yet effective that are expected to have an impact on the company.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

2 Dividends

	2007 £m	2006 £m
Amounts recognised as distributions to ordinary shareholders in the year comprise		
Final dividend for the year ended 31st May 2006 of 2.95p* (2005 2.66p*) per ordinary share	12.5	11.3
Interim dividend for the year ended 31st May 2007 of 1.00p (2006 0.93p*) per ordinary share	4.2	3.9
	16.7	15.2
Amounts recognised as distributions to preference shareholders in the year comprise		
10% cumulative preference shares	-	0.1
	16.7	15.3
Total amount recognised as distributions to shareholders in the year		
Proposed final dividend for the year ended 31st May 2007 of 3.27p (2006 2.95p*) per share	13.9	12.5

The proposed final dividends for the years ended 31st May 2006 and 31st May 2007 were subject to approval by shareholders at the annual general meeting and hence have not been included as liabilities in these financial statements at 31st May 2006 and 31st May 2007 respectively.

On 29th June 2005 the 'A' ordinary shares were redesignated as ordinary shares. The final dividends in respect of the year ended 31st May 2005 and the interim dividends recognised in the year ended 31st May 2006 in respect of ordinary shareholders have been re-presented to include dividends on both the ordinary and 'A' ordinary shares.

The preference shares which had a nominal value of £7.9 million were fully repaid on 1st August 2005.

At 31st May 2007 the Paterson Zochonis Employee Trust held 3,913,299 ordinary shares (2006 4,972,990*). The trust waived any entitlement to the dividends on these shares.

*The comparative figures have been restated for the share split on the basis of ten for one which was approved at the last annual general meeting on 25th September 2006 such that there are now ten 1p ordinary shares for every 10p ordinary share previously in existence before the share split.

3 Investments in subsidiaries

	Shares £m	Loans £m	Total £m
Cost at 1st June 2006 and 31st May 2007	120.3	4.4	124.7
Provisions at 1st June 2006 and 31st May 2007	(4.6)	-	(4.6)
Net book value at 1st June 2006 and 31st May 2007	115.7	4.4	120.1

Details of the company's direct subsidiaries at 31st May 2007 are as follows:

Subsidiary companies	Operation	Incorporated in	Parent company's interest	Proportion of voting interest
Charles Worthington Hair and Beauty Ltd	Holding company	England	100%	100%
PZ Cossons (Holdings) Ltd	Holding company	England	100%	100%
PZ Cossons (International) Ltd	Provision of services to Group companies	England	100%	100%
Minerva SA	Manufacturing	Greece	100%	100%

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

4 Debtors

	2007 £m	2006 £m
Amounts owed by Group companies	44 1	37 5
United Kingdom corporation tax recoverable	0 6	2 1
Overseas taxation recoverable	0 1	0 1
Prepayments and accrued income	0 3	0 3
	45 1	40 0

5 Current asset investments

	2007 £m	2006 £m
Unlisted	0 3	0 3
Deposits	9 8	8 3
	10 1	8 6

6 Creditors

	2007 £m	2006 £m
Due within one year		
Amounts owed to Group companies	100 7	83 6
Other creditors	0 8	1 0
Bank loan and overdraft	1 0	–
Accruals and deferred income	1 5	0 2
	104 0	84 8
Due after one year		
Amounts owed to Group companies	6 2	6 2
Other creditors	0 8	1 6
	7 0	7 8

At 31st May 2007 the company had undrawn overdraft facilities of £40 0 million (2006 £40 0 million) available to it. There are no committed facilities at 31st May 2007 (2006 nil).

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

6 Creditors continued**Financial instruments and risk management**

The company is not exposed to significant levels of financial risk. The company does not enter into derivative financial instruments.

Financial instruments utilised by the company during the years ended 31st May 2007 and 31st May 2006, together with information regarding the methods and assumptions used to calculate fair values, can be summarised as follows:

Current asset investments

In accordance with FRS 25 'Financial instruments: recognition and measurement', unlisted investments are held in the company's balance sheet at cost because their fair value cannot be measured reliably due to the lack of quoted market prices.

Current assets and liabilities

Financial instruments included within current assets and liabilities (excluding cash and borrowings) are generally short-term in nature and accordingly their fair values approximate to their book values.

Borrowings

The carrying values of cash and short-term borrowings and current asset investments approximate to their fair values because of the short-term maturity of these instruments.

The financial instruments held by the company do not, either individually or as a class, create a potentially significant exposure to market, credit, liquidity or cash flow interest rate risk.

7 Share capital

	2007		2006	
	Number (000)	Amount £m	Number (000)	Amount £m
Authorised				
Ordinary shares				
Ordinary shares of 1p* each	570,000	5.7	570,000	5.7
Total authorised share capital	570,000	5.7	570,000	5.7
Allotted, called up and fully paid				
Ordinary shares				
Ordinary shares of 1p* each	428,725	4.3	428,725	4.3
Total called up share capital	428,725	4.3	428,725	4.3

*The comparative figures have been restated for the share split, on the basis of ten for one, which was approved at the last annual general meeting on 25th September 2006, such that there are now ten 1p ordinary shares for every 10p ordinary share previously in existence before the share split.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

8 Reserves and movements in shareholders' funds

	Called up share capital £m	Capital redemption reserve £m	Profit and loss account £m	Other reserve £m	Total £m
At 1st June 2006	4.3	0.7	76.8	(2.9)	78.9
Profit for the financial year	-	-	2.2	-	2.2
Shares purchased for ESOT	-	-	-	0.4	0.4
Shares to be awarded from ESOT	-	-	-	(0.5)	(0.5)
Dividends paid	-	-	(16.7)	-	(16.7)
At 31st May 2007	4.3	0.7	62.3	(3.0)	64.3

No transaction costs (2006 £0.8 million) have been accounted for as a deduction from equity

The amounts in respect of the redemption of preference share capital were initially recognised in a special reserve, but were subsequently transferred to retained earnings in the prior year

9 Other reserve

	Shares held in trust Number (000)	Cost £m	Charged to profit and loss account £m	Net book value £m
At 31st May 2005*	4,560	4.4	(3.3)	1.1
Compensatory bonus issue	240	-	-	-
Shares purchased	1,420	2.6	-	2.6
Shares transferred out	(1,250)	-	-	-
Shares to be awarded	-	-	(0.8)	(0.8)
At 31st May 2006*	4,970	7.0	(4.1)	2.9
Shares purchased	320	0.5	-	0.5
Shares transferred out	(1,380)	-	-	-
Shares to be awarded	-	-	(0.4)	(0.4)
At 31st May 2007	3,910	7.5	(4.5)	3.0

The company's other reserve relates to the Employee Share Option Trust (ESOT)

The ESOT purchases shares to fund the deferred annual share bonus scheme details of which are provided in the report on directors remuneration. These shares are to be awarded for the achievement of annual targets and are normally received by directors after three years of continuing employment from the date of grant.

At 31st May 2007 the trust held 3,913,299 (2006 4,972,990*) ordinary shares with a market value of £6.7 million (2006 £7.2 million). The trust has waived any entitlement to dividends in respect of all the shares it holds.

*The comparative figures have been restated for the share split on the basis of ten for one which was approved at the last annual general meeting on 25th September 2006 such that there are now ten 1p ordinary shares for every 10p ordinary share previously in existence before the share split.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

Further statutory and other information

Health and safety

PZ Cussons aims to maintain a safe workplace at all locations in which it operates. We continue to ensure that our business activities are undertaken in a responsible manner and in accordance with the relevant statutory legislation and that employees at all levels participate in the development, promotion and maintenance of a safe and healthy working environment for employees, visitors and the public. The company employs health and safety specialists and, where appropriate, provides on-site medical facilities for employees.

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

Employment and staff development

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

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

Community and charity

We support a range of charitable causes, both in the UK and overseas, mainly through a UK based shareholding trust and additional contributions are made through staff time and gifts in kind. PZ Cussons continues to provide assistance and donations to significant global fund-raising initiatives and recognises its responsibility to the communities in which it operates. We are committed to establishing and maintaining strong relationships with community groups, particularly in developing markets.

Auditors

A resolution will be proposed at the annual general meeting on 24th September 2007 for the reappointment of Deloitte & Touche LLP as auditors of PZ Cussons Plc. The present appointment will end at the conclusion of the annual general meeting.

Directors' report of PZ Cussons Plc

For the purposes of section 234 of the Companies Act 1985, the report of the directors of PZ Cussons Plc for the year ended 31st May 2007 comprises this page and the information contained in the report of the directors on pages 6 to 30 and the report on directors' remuneration on pages 31 to 34.

Registered office

PZ Cussons House
Bird Hall Lane
Stockport SK3 0XN

Registered number

Company registered number 19457

Registrars

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

Company secretary

B H Leigh

Information about PZ Cussons Plc
and a full copy of the Annual Report and
Financial Statements can be found
on our website **www.pzcussons.com**