



**Restatement of financial information under
International Financial Reporting Standards (IFRS)**

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Restatement of financial information for the year ended 31 May 2005 under International Financial Reporting Standards

Background information

In July 2002, the European Union (EU) approved a regulation requiring all EU listed companies to prepare consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") for accounting periods commencing on or after 1 January 2005. PZ Cussons Plc ("the Group") will publish its 2006 annual report in accordance with IFRS. Previously the Group prepared its financial statements in accordance with accounting standards generally accepted in the UK ("UK GAAP"). This document provides information on the impact of adoption of IFRS on the Group's financial statements. The adoption of IFRS represents a change in the basis of preparation of financial statements and does not therefore affect the operations or cashflows of the Group.

Introduction

PZ Cussons Plc has adopted IFRS with effect from 1 June 2005. Our transition date is 1 June 2004 as this is the start date of the earliest period for which we will present full comparative information under IFRS in our 2006 Annual Report and Accounts.

The purpose of this document is to provide information on the expected impact of IFRS. The financial information represents our current best estimates and may be affected by business or other changes or by changes to IFRS standards or the interpretation thereof. As such, it should be treated with appropriate caution. The information is based on IFRS expected to be effective at 31 May 2006. The standards currently in issue are subject to ongoing review and endorsement by the European Union, while the application of the standards continue to be subject to interpretation by the International Financial Reporting Interpretations Committee ("IFRIC").

This document presents the audited consolidated income statement for the year ended 31 May 2005 and the audited consolidated balance sheets as at 1 June 2004 and 31 May 2005 under IFRS.

The financial information set out in this statement relating to the year ended 31 May 2005 does not constitute statutory accounts for that period. Full audited accounts of PZ Cussons Plc in respect of that financial period in accordance with UK GAAP, which received an unqualified audit opinion and did not contain a statement under either section 237(2) or (3) of the Companies Act 1985, have been delivered to the Registrar of Companies.

The income statement, including the reconciliations from UK GAAP to IFRS, has been translated using the average exchange rates prevailing in each period. Balance sheets have been retranslated at closing rates.

To explain how the consolidated financial statements of PZ Cussons Plc are affected by the adoption of IFRS, information previously published under accounting policies based on UK GAAP is converted to IFRS and presented in the attached appendices as follows:

Appendix 1: Accounting information and policies under IFRS.

Appendix 2: Restated consolidated income statement consistent with IFRS for the year ended 31 May 2005.

Appendix 3: Restated balance sheets at 31 May 2005 and 1 June 2004.

Appendix 4: Detailed reconciliations from UK GAAP to IFRS for:

- (i) Balance sheet at the transition date of 1 June 2004
- (ii) Balance sheet at 31 May 2005.

Appendix 5: Detailed reconciliation from UK GAAP to IFRS for:

- (i) Income statement for the year ended 31 May 2005.

Impact of IFRS on 2005 at a glance

	UK GAAP	IFRS	Change	Principal reason for change
	£'000	£'000	£'000	
Revenue	480,118	480,118	-	
Operating profit pre exceptional items (as previously categorised under UK GAAP)	53,940	53,452	(488)	<p><i>£0.2m net increase in pension operating costs on adoption of IAS 19.</i></p> <p><i>£0.3m increase in share option costs due to adoption of IFRS 2.</i></p>
Equity share capital and reserves (as previously called under UK GAAP)	286,399	291,021	4,622	<p><i>£4.4m increase due to adoption of IAS 19.</i></p> <p><i>£11.2m decrease due to providing deferred tax on revalued assets on adoption of IAS 12.</i></p> <p><i>£11.3m increase due to timing of dividend recognition.</i></p>
Basic earnings per share (EPS) (p)*	66.61	66.19	(0.42)	<p><i>0.03 increase due to adoption of IAS 19.</i></p> <p><i>0.45 decrease due to adoption of IFRS 2.</i></p>
Diluted earnings per share (p)*	65.90	65.49	(0.41)	<p><i>0.03 increase due to adoption of IAS 19.</i></p> <p><i>0.44 decrease due to adoption of IFRS 2.</i></p>

* EPS under UK GAAP is restated to reflect bonus issue on 29 June 2005

Basis of preparation

The Group's financial statements for the year ended 31 May 2006 will be prepared in accordance with IFRS and the comparatives for those periods will be restated to reflect IFRS, except where otherwise required or permitted by IFRS 1, "First Time Adoption of International Financial Reporting Standards".

IFRS 1 mandates that most IFRS are to be applied retrospectively. This means that the transition balance sheet as at 1 June 2004 needs to be restated assuming that the IFRS accounting policies had always been applied. There are certain limited optional exemptions from this requirement. There are also limited mandatory exceptions from applying certain aspects of IFRS in restating the comparative information.

This document has been prepared in accordance with the accounting policies described in more detail in Appendix 1; these comply in all material aspects with IFRS and interpretations from the IFRIC.

IFRS transitional arrangements

The International Accounting Standards Board (IASB) issued IFRS 1 "First Time Adoption of International Financial Reporting Standards" to establish requirements for the first time adoption of IFRS. In general a company is required to select accounting policies that comply with IFRS and apply these accounting policies retrospectively to all of the periods presented in the first IFRS financial statements. The opening IFRS balance sheet is to be prepared at the date of transition to IFRS based upon the selected accounting policies under IFRS. The transition date is the earliest period for which the full comparative information is presented in accordance with IFRS. PZ Cussons' transition date is 1 June 2004.

IFRS allows a number of exemptions to be taken in preparing the opening balance sheet as at 1 June 2004 and in preparing the comparative information for the year ended 31 May 2005. PZ Cussons has elected to take the following exemptions as permitted under IFRS 1:

- (i) **Business combinations:** Business combinations that took place before the transition date have not been restated and therefore all goodwill written off to reserves or amortised prior to the date of transition remains written off to reserves and will not be taken into account either for subsequent impairment reviews or on disposal of the subsidiary.
- (ii) **Fair value as deemed cost:** Fair value, or a previous revaluation to fair value adjusted for subsequent depreciation, may be used as deemed cost for any item of property, plant and equipment at the date of transition. The directors consider the balance sheet revalued amounts as at 31 May 2004 to be equivalent to the fair value and therefore the Group has opted to treat the fixed asset valuations of 31 May 2004 as deemed cost and the related asset values therefore remain unadjusted on transition to IFRS.
- (iii) **Cumulative translation differences:** The Group has elected to set the cumulative translation differences on foreign subsidiaries to zero at date of transition. This election means that any gain or loss on any subsequent disposal of any foreign operation shall exclude translational differences that arose before the date of transition to International Financial Reporting Standards but shall include later translation differences.
- (iv) **Derivative and other financial instruments:** The Group has elected to apply the EU versions of IAS 32 and 39 with an effective date of 1 June 2005, which permits the non-application of these standards in the comparative period.

- (v) **Non-current assets:** IFRS 5 changes the basis of presenting and measuring assets and groups of assets held for sale. IFRS 1 allows that IFRS 5 may be implemented from 1 January 2005 onwards. Although the Group is taking advantage of this exemption, no specific measurement differences arise on 1 January 2005 from this change in accounting policy.
- (vi) **Retirement benefits:** The Group has elected to recognise in full all actuarial gains and losses relating to pension schemes both at the opening balance sheet date, and prospectively, through the statement of recognised income and expense.

Impact of transition to IFRS

The adoption of IFRS will result in the following changes to the Group's accounting policies and the financial impact of each is summarised. The overall impact on the Group's reported financials can be found in appendices 4 and 5.

Employee benefits

Under UK GAAP the Group accounted for its defined benefit schemes under SSAP 24 which spread the cost of retirement pensions and related benefits over the periods benefiting from the employees' services. Disclosures required under the transitional arrangements of FRS 17 (including the fair values of the pension schemes' assets and liabilities and the amounts that would have been recognised in the profit and loss account and the statement of recognised gains and losses) were provided in the notes to the accounts.

Under IFRS, the group has determined that prospective application of the corridor methodology under IAS 19 would not be appropriate and therefore has opted for early adoption of the amendment to IAS 19 allowing recognition in the statement of recognised income and expense ("SRIE") of actuarial gains and losses in full in the period in which they occur. The accounting treatment of defined benefit plans will thus be similar to that previously disclosed in respect of FRS 17. The balance sheet will reflect the full value of the pension scheme surplus/deficit, actuarial gains and losses will be recognised directly in equity through the SRIE and the charge to the income statement will include current and past service costs.

The impact of implementing IAS 19 on the previously reported figures is as follows:-

Balance sheet	31 May 2005	1 June 2004
	£'000	£'000
Increase in retirement benefit surplus	22,974	20,229
Increase in retirement benefit obligation	(28,047)	(21,578)
Decrease in current and non-current receivables (SSAP 24 assets)	(1,170)	(4,179)
Decrease in current and non-current payables (SSAP 24 liability).	10,162	13,165
Increase/(decrease) in deferred tax assets and liabilities	506	(772)
Net impact on profit and loss reserve	4,425	6,865

The impact on the income statement for the 12 months to 31 May 2005 of reversing SSAP 24 costs and recognising IAS 19 regular and interest costs is a net increase in operating costs of £215,000. There is also a £227,000 deferred tax credit in the year which arises on the overall movement of the surplus/deficit.

Business combinations, goodwill and intangible fixed assets

Under UK GAAP the Group capitalised and amortised goodwill and intangible assets purchased after 1 June 1998 over the period of their expected useful lives (up to a maximum of 20 years in the case of goodwill). Goodwill purchased prior to 1 June 1998 was written off or added to reserves in the year of acquisition. On disposal or closure of a previously acquired business, the attributable amount of goodwill would be included in determining the profit or loss on disposal.

Under IFRS, from 1 June 2004 onwards, goodwill and those intangible assets with indefinite lives will not be amortised but will instead be tested for impairment on an annual basis. (Note: there is no transitional financial impact of this change in accounting policy since in the UK GAAP results already reported the carrying value of goodwill at 1 June 2004 was nil, and the sole intangible asset held by the group had an indefinite life and did not therefore attract an amortisation charge in the period to 31 May 2005). On disposal, goodwill acquired and written off on acquisition prior to 1 June 1998 will no longer be reinstated as part of the profit or loss on disposal.

We have applied the exemption in IFRS 1 relating to business combinations and therefore:

- the carrying value of goodwill remains as nil at 1 June 2004; and
- the carrying value of the intangible asset (being the Original Source brand) at 1 June 2004 remains as £9,728,000.

The UK GAAP accounting for the acquisition of Charles Worthington Hair and Beauty Company Ltd and its subsidiaries on 1 July 2004 has been reviewed in line with IFRS with the conclusion that there are no adjustments required to the UK GAAP results already reported for the 12 month period to 31 May 2005 other than the recognition of a deferred tax liability which is required against the fair value of the brand recognised on acquisition (which has a tax base of nil due to the fact that the acquisition was a share based transaction). In summary:

- the carrying value of the brand remains unchanged at £29,302,000;
- the brand is considered to have an indefinite life and will be subject to annual impairment reviews; and
- a deferred tax provision of £8,790,600 is recognised during the 12 month period to 31 May 2005 in accordance with IAS 12. This provision is required since the CW acquisition was a share based transaction and the brand therefore has a tax base of nil. The corresponding debit entry is the recognition of goodwill for the same amount.

The UK GAAP accounting for the acquisition of the Trix brand by our Australian subsidiary on 27 May 2005 has also been reviewed in line with IFRS with the conclusion that there are no adjustments required for the 12 month period to 31 May 2005.

Property, plant and equipment

Under UK GAAP, fixed assets were stated at cost or valuation less accumulated depreciation. In accordance with Financial Reporting Standard 15, "Tangible Fixed Assets", land and buildings were fully revalued at least every 5 years, together with an interim valuation in year 3. Depreciation was provided on all fixed assets, excluding freehold land, on a straight line basis, by reference to the expected useful lives of the assets concerned.

Under IAS 16, property, plant and equipment requires initial measurement at cost. IFRS 1 allows entities to use a deemed cost at transition date for assets purchased prior to transition. Deemed cost can be (i) depreciated historical cost; (ii) fair value at date of transition; or (iii) previous revaluation to fair value adjusted for subsequent depreciation. The Group has opted to use as deemed cost the valuations performed at 31 May 2004 for land and buildings and the depreciated historical cost for all other assets. The related asset values therefore remain unadjusted on transition to IFRS.

After initial recognition, property, plant and equipment will be carried at cost less accumulated depreciation and accumulated impairment losses.

Foreign currencies

Under UK GAAP, currency translation differences arising on the retranslation of the Group's share, at the beginning of the year, of the net assets of overseas subsidiaries were treated as a movement in reserves.

Under IAS 21, translation differences are recorded in a separate currency translation reserve. On disposal of a foreign operation, the cumulative translation differences relating to that operation are transferred to the income statement as part of the profit or loss on disposal.

The Group has opted to take the IFRS 1 exemption allowing it to deem all cumulative translation differences that have arisen up to the transition date to be equal to zero. These translation differences will therefore remain written off against distributable reserves and will not be separately disclosed in the notes to the accounts.

Income taxes

Under UK GAAP, deferred tax was provided in full on timing differences that resulted in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date. 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 was not provided on timing differences arising from the revaluation of fixed assets where there was no binding contract to dispose of such assets, nor on unremitted earnings where there was no binding commitment to remit those earnings.

Under IAS 12, deferred tax is recognised in respect of all taxable temporary differences arising between the tax base and the accounting base of balance sheet items at the balance sheet date. This includes revaluations and rolled over capital gains, regardless of whether there is an intention to dispose of the relevant assets in the future, and also unremitted earnings of associates and joint ventures where the Group does not have the ability to control the payment of dividends by the associate or joint venture.

IAS 12 also requires corporation tax payable or receivable to be shown separately in current and non-current liabilities or assets as applicable.

The financial impact on the previously reported figures is as follows:

Balance sheet		31 May 2005	1 June 2004
		£'000	£'000
Increase in deferred tax liability due to revaluation of land and buildings		15,633	16,189
Decrease in minority interest reserve		4,435	4,503
Decrease on revaluation reserve		11,198	11,686

Share based payments

Share based payments for the Group include the Deferred Annual Share Bonus Scheme (DASB) and the Executive Share Option Scheme (ESOS).

Under UK GAAP, the cost to the company of making awards in the form of shares or rights to shares under these schemes is charged to the profit and loss account over the period to which the performance criteria relate. Previously no charge has been made under the Executive Share Option Scheme since the exercise price has been equal to the market price of the shares at the date of grant.

Under IFRS 2, the charge to the income statement in respect of the ESOS is based on the fair value of the options granted and is spread over the vesting period of the instrument. The Black-Scholes model has been used in the valuation of the share options granted under the scheme. This has resulted in an additional charge to the income statement of £137,000 for the six month period to 30 November 2004 and £273,000 for the 12 month period to 31 May 2005.

The accounting treatment for the DASB Scheme has not changed as it is based on the actual cost to the Company of shares purchased and held in trust.

Dividends

Under UK GAAP, the Group accounted for proposed dividends relating to a given accounting period in that period, even if the approval of that dividend took place after the balance sheet date.

Under IAS 10, proposed dividends do not meet the definition of a liability until such time as they have been approved by the shareholders at the annual general meeting. Therefore the Group will no longer recognise a liability in any period for dividends that have been proposed but will not be approved until after the balance sheet date; rather these amounts will be disclosed in the notes to the accounts in accordance with IAS 1.

The proposed final dividends accrued at 1 June 2004 and 31 May 2005 were £9,624,000 and £11,276,000 respectively. The interim dividend accrued at 30 November 2004 was £3,484,000. These dividends have been reversed as required by IAS 10.

Exceptional items

Under UK GAAP, three types of exceptional items were required to be shown after operating profit: (i) profit/loss on sale or termination of an operation, (ii) costs of a fundamental reorganisation and (iii) profit/loss on disposal of fixed assets.

Under IFRS, all items previously categorised as exceptional under UK GAAP, apart from the results of discontinued operations, are disclosed in the appropriate operating line item before operating profit, with separate disclosure for items that are material by virtue of their size or nature.

This results in a reclassification of exceptional items reported by the group for the year ended 31 May 2005.

Joint ventures

Under UK GAAP, FRS 9 requires joint ventures to be accounted for in consolidated financial statements using the gross equity method whereby the Group's share of turnover was separately disclosed within turnover and the Group's share of gross assets and liabilities was separately disclosed in the balance sheet.

IAS 31 does not permit gross equity accounting and instead presents the options of equity accounting or proportional consolidation. The Group has opted to account for its joint ventures under the equity method of accounting such that the share of profit or loss after tax from joint ventures is presented as a separate item on the face of the income statement as part of profit before tax within operating profit.

Financial assets and financial instruments

Financial Instruments

The Group has taken the option under IFRS 1 to implement IAS 39 from 1 June 2005. IAS 39 is applied prospectively and therefore no restatements are made to the income statement for the year ended 31 May 2005 or the balance sheets as at 1 June 2004 and 31 May 2005. The key areas of impact of IAS 39 are as follows:

(a) Non-derivative financial assets and liabilities

Under UK GAAP the Group held most non-derivative financial assets on the balance sheet at cost less provisions for permanent diminution in value, with the market value of quoted investments disclosed in the notes to the accounts.

IAS 39 requires non-derivative financial assets to be held at fair value with movements in fair value being recognised according to classification (see accounting policies).

The key impact of the adoption of IAS 39 on the Group's non-derivative financial assets is to recognise movements in the fair value of those listed investments that are 'held for trading' through the income statement. At 1 June 2005 this has resulted in an increase in the value of investments of £2,812,000, an increase in retained earnings of £1,968,400 and an increase in deferred tax liabilities of £843,600.

(b) Derivative financial instruments

The international range of the Group's activities gives rise to transactional exchange rate risk. The Group uses derivative financial instruments such as foreign exchange contracts to hedge these exposures.

Under UK GAAP gains or losses on these financial instruments were generally recognised in the accounts on the settlement of the hedged item with the fair value of such instruments being disclosed in the notes to the accounts where material.

IAS 39 requires the recognition of all derivative financial instruments on the balance sheet and that they are measured at fair value. In order to apply hedge accounting the standard requires strict criteria including the existence of formal documentation and the achievement of effectiveness tests to be met. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Cash equivalents

The Group holds surplus cash on short term deposits. Under UK GAAP these amounts were held in the Group's balance sheet as other current asset investments based on the definition of cash in FRS 1 "Cash Flow Statements". Under IFRS cash held on up to three months deposit is held in the 'cash and cash equivalents' balance in the Group's balance sheet based on the definition of 'cash equivalents' in IAS 7 "Cash Flow Statements". The cash equivalent balance is the number to which the Group cashflow statement is reconciled to.

Accordingly adjustments have been recognised at 1 June 2004 and 31 May 2005 of £65,046,000 and £50,818,000.

Appendix 1:

Accounting information and policies under IFRS

Significant accounting policies

The financial statements have been prepared on a basis consistent with International Financial Reporting Standards. The financial statements have been prepared on a historical cost basis, subject to the exemption under IFRS 1 allowing entities to use a deemed cost at transition date for assets purchased prior to transition. Deemed cost can be (i) depreciated historical cost; (ii) fair value at date of transition; or (iii) previous revaluation to fair value adjusted for subsequent depreciation. The Group has opted to use as deemed cost the valuations performed as at 31 May 2004 for land and buildings and the depreciated historical cost for all other assets.

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 31 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 the 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.

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 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, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. 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.

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 and IAS 31, 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.

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. 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.

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, 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.

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, the Group

has set the currency reserve to zero at 1 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.

Pensions and retirement benefits

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

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 3 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.

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.

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 transition date less accumulated depreciation and any accumulated impairment losses. All other assets are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Plant and machinery and fixtures and fittings are stated at cost less accumulated depreciation and any recognised impairment loss.

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

Investments

Current asset investments are recorded at fair value. Gains and losses arising from changes in fair value are recognised in the profit or loss for the period.

Research and development

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

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 and hedge accounting

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 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 are recognised in the income statement as they arise.

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.

Bank 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 to 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.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Investments

Investments 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 held for trading, and 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.

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.

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 Payments” has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

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.

Appendix 2:

**Restated consolidated income statement consistent with IFRS
for the year ended 31 May 2005**

	Year ended 31 May 2005		
	Before restructuring and fixed asset disposals	Restructuring and fixed asset disposals	Total
	£'000	£'000	£'000
Revenue	480,118	-	480,118
Operating costs:			
Restructuring of operations	-	(6,642)	(6,642)
Profit on disposal of tangible fixed assets	-	5,295	5,295
Loss on sale of operation	-	(3,352)	(3,352)
Other costs	(426,666)	-	(426,666)
Total operating costs	(426,666)	(4,699)	(431,365)
Operating profit	53,452	(4,699)	48,753
Finance income	5,311	-	5,311
Finance costs	(664)	-	(664)
Net finance income	4,647	-	4,647
Profit before tax	58,099	(4,699)	53,400
Income tax expense	(17,659)	(616)	(18,275)
Profit for the period	40,440	(5,315)	35,125
Attributable to:			
Equity holders of the parent	34,159	(5,315)	28,844
Minority interest	6,281	-	6,281
	40,440	(5,315)	35,125
Basic EPS (p)	78.72	(12.53)	66.19
Diluted EPS (p)	77.88	(12.39)	65.49

Appendix 3:**Restated balance sheets at 31 May 2005 and 1 June 2004****Restated consolidated balance sheet of PZ****Cussons Plc**

	31 May 2005 £'000	1 June 2004 £'000
Assets		
Non-current assets		
Intangible assets	54,077	9,728
Property, plant and equipment	139,304	146,657
Investments in joint ventures	104	19
Other investments	572	576
Receivables	136	165
Retirement benefit surplus	22,974	20,229
Deferred tax assets	3,414	1,525
	220,581	178,899
Current assets		
Inventories	128,923	112,586
Receivables and prepayments	70,614	65,508
Other investments	16,182	15,293
Cash and cash equivalents	65,663	78,134
Current taxation receivable	1,514	-
	282,896	271,521
Total assets	503,477	450,420
Liabilities		
Current liabilities		
Financial liabilities	(5,173)	(8,251)
Trade and other payables	(81,874)	(74,066)
Current taxation payable	(11,433)	(8,769)
	(98,480)	(91,086)
Non-current liabilities		
Financial liabilities	(2,718)	-
Other liabilities	(5,719)	(3,343)
Deferred tax liabilities	(28,472)	(21,501)
Retirement benefit obligation	(28,047)	(21,578)
Provisions	(12,045)	(6,722)
	(77,001)	(53,144)
Total liabilities	(175,481)	(144,230)
Net assets	327,996	306,190
Equity		
Ordinary share capital	4,073	4,073
Preference share capital	7,898	7,898
Capital redemption reserve	671	671
Revaluation reserve	28,086	30,046
Other reserve	(1,137)	(970)
Equity reserve	397	124
Currency translation reserve	5,551	-
Retained earnings	245,482	230,542
Equity attributable to equity holders of the parent	291,021	272,384
Equity minority interest	36,975	33,806
Total equity	327,996	306,190

Appendix 4(i):

Reconciliation of balance sheet, from UK GAAP to IFRS, at the transition date of 1 June 2004.

	UK GAAP	IAS 19 Employee benefits	IAS 12 Income taxes	IFRS 2 Share based payments	IAS 10 Post balance sheet events	IAS 7 Cash flow statements	Consistent with IFRS
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Non-current assets							
Intangible assets	9,728	-	-	-	-	-	9,728
Property, plant and equipment	146,657	-	-	-	-	-	146,657
Investments in joint ventures	19	-	-	-	-	-	19
Other investments	576	-	-	-	-	-	576
Receivables	4,149	(3,984)	-	-	-	-	165
Retirement benefit surplus	-	20,229	-	-	-	-	20,229
Deferred tax assets	1,419	69	-	37	-	-	1,525
	162,548	16,314	-	37	-	-	178,899
Current assets							
Inventories	112,586	-	-	-	-	-	112,586
Receivables and prepayments	65,703	(195)	-	-	-	-	65,508
Other investments	80,339	-	-	-	-	(65,046)	15,293
Cash and cash equivalents	13,088	-	-	-	-	65,046	78,134
	271,716	(195)	-	-	-	-	271,521
Total assets	434,264	16,119	-	37	-	-	450,420
Liabilities							
Current liabilities							
Financial liabilities	8,251	-	-	-	-	-	8,251
Trade and other payables	93,076	(617)	(8,769)	-	(9,624)	-	74,066
Current taxation payable	-	-	8,769	-	-	-	8,769
	101,327	(617)	-	-	(9,624)	-	91,086
Non-current liabilities							
Financial liabilities	-	-	-	-	-	-	-
Other liabilities	15,891	(12,548)	-	-	-	-	3,343
Deferred tax liabilities	4,471	841	16,189	-	-	-	21,501
Retirement benefit obligation	-	21,578	-	-	-	-	21,578
Provisions	6,722	-	-	-	-	-	6,722
	27,084	9,871	16,189	-	-	-	53,144
Total liabilities	128,411	9,254	16,189	-	(9,624)	-	144,230
Net assets	305,853	6,865	(16,189)	37	9,624	-	306,190
Equity							
Ordinary share capital	4,073	-	-	-	-	-	4,073
Preference share capital	7,898	-	-	-	-	-	7,898
Capital redemption reserve	671	-	-	-	-	-	671
Revaluation reserve	41,732	-	(11,686)	-	-	-	30,046
Other reserve	(970)	-	-	-	-	-	(970)
Equity reserve	-	-	-	124	-	-	124
Retained earnings	214,140	6,865	-	(87)	9,624	-	230,542
Equity attributable to equity holders of the parent	267,544	6,865	(11,686)	37	9,624	-	272,384
Equity minority interest	38,309	-	(4,503)	-	-	-	33,806
Total equity	305,853	6,865	(16,189)	37	9,624	-	306,190

Appendix 4(ii):

Reconciliation of balance sheet, from UK GAAP to IFRS, at 31 May 2005

	UK GAAP	IAS 19 Employee benefits	IFRS 3 Business combinations	IAS 12 Income taxes	IAS 21 Effects of changes in FX rates	IFRS 2 Share based payments	IAS 10 Post balance sheet events	IAS 7 Cash flow statements	Consistent with IFRS
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets									
Non-current assets									
Intangible assets	45,287	-	8,790	-	-	-	-	-	54,077
Property, plant and equipment	139,304	-	-	-	-	-	-	-	139,304
Investments in joint ventures	104	-	-	-	-	-	-	-	104
Other investments	572	-	-	-	-	-	-	-	572
Receivables	1,111	(975)	-	-	-	-	-	-	136
Retirement benefit surplus	-	22,974	-	-	-	-	-	-	22,974
Deferred tax assets	2,789	506	-	-	-	119	-	-	3,414
	189,167	22,505	8,790	-	-	119	-	-	220,581
Current assets									
Inventories	128,923	-	-	-	-	-	-	-	128,923
Receivables and prepayments	72,323	(195)	-	(1,514)	-	-	-	-	70,614
Other investments	67,000	-	-	-	-	-	-	(50,818)	16,182
Cash and cash equivalents	14,845	-	-	-	-	-	-	50,818	65,663
Current taxation receivable	-	-	-	1,514	-	-	-	-	1,514
	283,091	(195)	-	-	-	-	-	-	282,896
Total assets	472,258	22,310	8,790	-	-	119	-	-	503,477
Liabilities									
Current liabilities									
Financial liabilities	5,173	-	-	-	-	-	-	-	5,173
Trade and other payables	105,200	(617)	-	(11,433)	-	-	(11,276)	-	81,874
Current taxation payable	-	-	-	11,433	-	-	-	-	11,433
	110,373	(617)	-	-	-	-	(11,276)	-	98,480
Non-current liabilities									
Financial liabilities	2,718	-	-	-	-	-	-	-	2,718
Other liabilities	15,264	(9,545)	-	-	-	-	-	-	5,719
Deferred tax liabilities	4,049	-	8,790	15,633	-	-	-	-	28,472
Retirement benefit obligation	-	28,047	-	-	-	-	-	-	28,047
Provisions	12,045	-	-	-	-	-	-	-	12,045
	34,076	18,502	8,790	15,633	-	-	-	-	77,001
Total liabilities	144,449	17,885	8,790	15,633	-	-	(11,276)	-	175,481
Net assets	327,809	4,425	-	(15,633)	-	119	11,276	-	327,996
Equity									
Ordinary share capital	4,073	-	-	-	-	-	-	-	4,073
Preference share capital	7,898	-	-	-	-	-	-	-	7,898
Capital redemption reserve	671	-	-	-	-	-	-	-	671
Revaluation reserve	40,249	-	-	(11,198)	(965)	-	-	-	28,086
Other reserve	(1,137)	-	-	-	-	-	-	-	(1,137)
Equity reserve	-	-	-	-	-	397	-	-	397
Currency translation reserve	-	-	-	-	5,551	-	-	-	5,551
Retained earnings	234,645	4,425	-	-	(4,586)	(278)	11,276	-	245,482
Equity attributable to equity holders of the parent	286,399	4,425	-	(11,198)	-	119	11,276	-	291,021
Equity minority interest	41,410	-	-	(4,435)	-	-	-	-	36,975
Total equity	327,809	4,425	-	(15,633)	-	119	11,276	-	327,996

Appendix 5 (i)

Reconciliation, from UK GAAP to IFRS, of the income statement for the year ended 31 May 2005

	As reported under UK GAAP	Reclassification of amounts classified as exceptional under UK GAAP	IAS 19 Employee benefits	IFRS 2 Share based payments	IAS 10 Post-balance sheet events	Consistent with IFRS
	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	480,118	-	-	-	-	480,118
Operating profit	47,298	1,943	(215)	(273)	-	48,753
Profit on disposal of tangible fixed assets	5,295	(5,295)	-	-	-	-
Loss on sale or termination of operations	(3,352)	3,352	-	-	-	-
Net investment income/interest payable	4,647	-	-	-	-	4,647
Profit on ordinary activities before tax	53,888	-	(215)	(273)	-	53,400
Tax on profit on ordinary activities	(18,584)	-	227	82	-	(18,275)
Profit on ordinary activities after tax	35,304	-	12	(191)	-	35,125
Equity minority interests	(6,281)	-	-	-	-	(6,281)
Profit for the financial year	29,023	-	12	(191)	-	28,844
Preference dividends	(770)	-	-	-	-	(770)
Profit attributable to ordinary capital	28,253	-	12	(191)	-	28,074
Ordinary dividends	(14,782)	-	-	-	1,652	(13,130)
Profit for the financial year retained	13,471	-	12	(191)	1,652	14,944
Basic EPS (p)	66.61	-	0.03	(0.45)	-	66.19
Diluted EPS (p)	65.90	-	0.03	(0.44)	-	65.49