McBride plc

Annual report and accounts 2006

Behind the label

Contents

Operating highlights

- Overall results in line with expectations supported by growth in the UK and Eastern Continental Europe
- Strengthened customer focus and lower cost base in Western Continental Europe
- Group revenue 1% above last year at £540.1 million (2005: £537.1m)
- Profit before tax, before exceptional items, down 12% to £29.7 million (2005: £33.6m); reported profit before tax was £25.9 million (2005: £30.6m)
- Final dividend proposed of 3.5p, up 6%, making a total of 5.1p, up 6% (2005: 4.8p)
- Significant investment in end of line automation and bottle blowing capacity across the whole Group
- Manufacturing capacity in Poland increased by 40% to support sales growth.
- Two recent value enhancing in-fill acquisitions, from Sanmex International and Coventry Chemicals, already making a positive contribution

Who we are and what we do

McBride is Europe's leading provider of Private Label Household and Personal Care products, and we are totally dedicated to the sustained growth of Private Label category sales.

Working closely with our customers, we develop products to meet their demands for price, service and innovation. Our technical expertise ensures that our retail customers' Private Label products can match or exceed the performance of major brand equivalents.

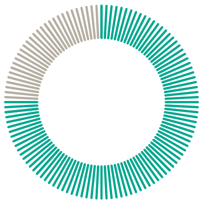
Our company culture strives to promote team working, open-mindedness and respect for colleagues, customers and suppliers. This helps us deliver on our commitment to continuous improvement and delivering on our promises.

It's what happens behind the label that sets us apart

Group overview

The UK business is the market leader in Private Label Household and Personal Care products, winning The Grocer magazine's Gold Award for Best Own Label Supplier for 2006.

Leading

Division	**McBride UK**
Core markets	UK and Ireland
Private Label market characteristics	In the year to June 2006, Private Label Household products grew by 4% in value and 2% in volume, while Personal Care volumes grew 1%. As a result Private Label Household volume share increased 1 percentage point to 34% whilst Personal Care volume share remained flat at 22%.
McBride operations	**Number of factories: 5** **Average number of employees: 2,120** Producing: laundry detergents, fabric softeners, household cleaners, dishwashing products, aircare products, personal hair, body, oral and skin care products and aerosols.
Main business activity	 Household products **75%** Personal Care products **25%**
Household products	
Personal Care products	

McBride Western Continental Europe (WCE) is one of Europe's largest suppliers of Private Label Household and Personal Care products.

Major

McBride WCE

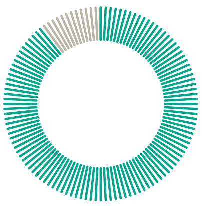
Austria, Belgium, France, Germany, Italy, The Netherlands, Portugal, Spain and Switzerland

Private Label Household products value share continued to grow in all markets except the Netherlands.

In our largest market, France, whilst the overall Household and Personal Care categories declined in value by 3% in the year, the decline in Private Label was limited to 1% in both cases. Private Label increased its volume share of Household and Personal Care products to 30% and 21% respectively in the year to June 2006.

Number of factories: 8
Average number of employees: 2,101

Producing: laundry detergents, fabric softeners, household cleaners, dishwashing products, aircare products, personal care products and aerosols.



Household products
89%
Personal Care products
11%

McBride Eastern Continental Europe (ECE) focuses on Central and Eastern Europe. It had a particularly strong year with sales in Poland up by 43%.

Focused

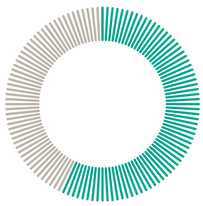
McBride ECE

Poland, Czech Republic, Hungary and other Central and Eastern European countries including Russia

Core ECE markets continue growth, with retailers expanding their Private Label offer primarily in value ranges. Retail consolidation is accelerating, with Hungary, the Czech Republic, Slovakia and Poland leading the way.

Number of factories: 1
Average number of employees: 295

Producing: laundry detergents, fabric softeners, household cleaners, dishwashing products and personal care products.



Household products
57%
Personal Care products
43%

Private Label growth across Europe

Growing Private Label

Sales of Private Label products continue to grow in almost all European markets, reflecting the increasing trust consumers are placing in the quality and value of retailer brands.

Growing markets

Shoppers across Europe are buying more Private Label products than ever before, with its market share rising in 17 of 18 countries surveyed.

This is the key message from the PLMA's 2006 International Private Label Yearbook, tabulated by ACNielsen. It showed All Category Private Label achieving 40% volume market share in the UK, Switzerland, Germany and Belgium for the first time, and share in France and Spain rising to 33%.

Growth was also healthy in the household and personal care business sectors in many of the national markets where McBride operates.

Achieving differentiation

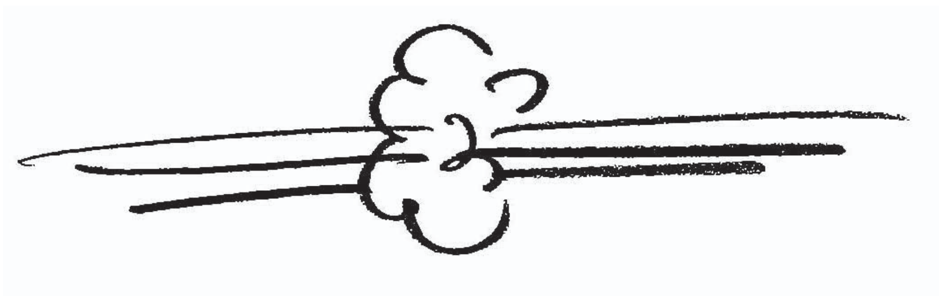
The UK, widely seen as a mature market, saw Private Label Household sales grow by 4% in an overall market that grew 1%. Personal Care grew by 1%, in line with the overall market. We believe the development of premium Private Label, an area where we are providing our customers with real differentiation, is helping drive this growth.

Private Label products have also grown in the great majority of our core western European markets. Accelerating consolidation through the continued expansion of international retailers and discounters into Central and Eastern Europe is also driving growth in the region, where Hungary, the Czech Republic, Slovakia and Poland continue to lead retail development.

New product development

Fast development to match or exceed the major brands

The speed and quality of McBride's new product development ensures our customers' own Private Label products are always fully up-to-date with – or ahead of – the latest consumer and competitor trends.



Leading the way

We have long been at the forefront of product innovation in the European machine dishwashing sector. This is a good place to be: Mintel estimates the sector's value in 2006 to be over €1.2 billion in the key markets of France, Germany, Italy, Spain and the UK, and is forecasting strong growth from increasing dishwasher ownership.

A continuous stream of new products has been developed since the early 1990s, beginning with the first dishwasher tablets and continuing through 3 in 1, then 4 in 1 and, in 2005, 5 in 1 products for ever-increasing added value.

McBride's strong pedigree in the sector began with the launch of our first dishwasher tablets in the 1990s. We subsequently became the first company to launch dishwasher powder for fine china, and today we are achieving great success with two and three-layer multifunctional tablets.

Meeting consumer needs

Most recently, McBride WCE successfully became the first Private Label manufacturer to get to market with a tablet that can be used straight from the box.

Based on our identification of an emerging consumer need, the tablet has a soluble wrapper that dissolves at the start of the cycle. Because users do not need to unwrap it, the design enables cleaner, safer tablet handling.

Development involved a significant technical challenge – that of creating a product that could be protected from high humidity until the moment of use. Investments in climate-controlled production lines and a new packaging solution were successful, and we launched the product in a premium, eye-catching carton.

This was a project that combined high-level technical expertise with a deep understanding of consumer desires. Sales have been excellent to date, further strengthening our position in this growing sector.

Excellent customer service

Our number one priority delivering on our promise

Excellent customer service is our single top priority, maintaining constant on-shelf availability for the Private Label ranges of all our customers. It's a challenge – but our people and systems enable demanding targets to be achieved.

The challenge

Our UK logistics, warehousing and operations teams are responsible for the successful delivery of 3,000 products to 800 destinations. That means that 35,000 deliveries of 60 million product cases each year need to meet one-hour delivery slots – often at just 48 hours' notice.

The picture is similar in Western Continental Europe, where we despatch over 4,600 different products to 1,200 locations in 49,000 deliveries of 66 million product cases.

Wherever we operate, a number of factors are combining to intensify the challenge. These include ever-reducing lead-times for orders, an escalating focus on stock management, increasing traffic congestion and changes to driver legislation.

The solution

Effective end-to-end supply chain management is the key to achieving our mission of constant on-shelf product availability. Our SAP systems provide the real-time information needed for better decision-making and control.

Our UK customers' EPoS sales and stock information is downloaded every day, and formatted for easy access by the whole business. This shows stock levels in the supply chain and being sold through the tills, to provide constant knowledge of each customer's position.

It is also fed each week into dynamic forecasting tools, which we use to drive materials call-off at our sites and procurement from our suppliers. We review our forecasts constantly, and our Forecasting Team is able to respond immediately to changing circumstances.

EPoS analysis is a vital customer-service tool that ensures timely deliveries, minimised downtime and optimised stock control over finished goods and raw materials.

It supports the teamwork that has seen us win The Grocer magazine's Gold Award for Best Own Label Supplier for the second time in four years, and the household and personal care award for the sixth year in a row.

Continuous improvement

We're getting better everyday

In our fast-moving consumer market places, we're continuously striving to improve quality, reduce costs, develop better products and extend the utilisation of our assets. We never stand still because we are never satisfied with our performance.

Leading cultural change

Following the example of our UK operations, our Western Continental European business is now also embedding Continuous Improvement into its everyday working practices, establishing a culture that involves all employees in actively searching for business improvement opportunities.

At each site, teams of between four and eight are meeting each month to help steer improvements, supported by a Continuous Improvement Co-ordinator responsible for training and liaison.

Working groups have been launched across the business to look at specific issues suggested by any member of staff and prioritised by the steering groups.

One result is that more than 100 projects are underway, aimed at improving the efficiency of a wide number of operational processes as well as the quality and performance of our products.

Delivering energy savings

Earlier this year, a Continuous Improvement team at our Household factory in Ieper, Belgium, launched a five-month project to promote energy efficiency.

In it they invited staff to put forward their ideas, and set a target of €25,000 in annual savings from resulting improvements. In the event, over 80 suggestions were received – and implementation has vastly exceeded expectation, savings have reached €75,000 with the potential for even more substantial savings going forward.

This immediate success has provided encouragement for colleagues across the business by showing what a commitment to Continuous Improvement can achieve. In turn, this is helping embed it within our Western Continental European operation as a key means of delivering its business plan.

Working together

Working together to achieve the best results

Our culture is one of teamwork, encouraging people to work together with integrity, mutual respect and a commitment to exceeding expectations. We believe this approach benefits our customers, giving us a tangible advantage over our competitors.

New product development

The excellent 9% year-on-year growth in our personal care business in the year ended 30 June 2006 built on the previous year's encouraging performance. And new product launches over the last two years are set to drive further gains in the years ahead.

New product development (NPD) is critically important at McBride. We base it on a proven process that uses teamwork to share knowledge and pool experience across our three divisions and all our business functions.

We also involve the suppliers of raw materials, perfumes, packaging and bottles.

This robust approach, from idea and product definition to promotion and launch, is why so many of our customers regard McBride as a partner in their Private Label category development.

Our NPD process drove the launch of almost 500 new Personal Care products in the year ended 30 June 2006. And many more are in the pipeline.

Exploiting market opportunities

A leading French retailer selected us as one of its partners to launch a range of Private Label men's grooming products into a booming market that had grown from €240 million in 2000 to €360 million by 2005.

With Euromonitor research showing that 80% of the male grooming market in France is distributed by mass-market retailers, our effective approach to teamwork was a key factor in capturing this opportunity.

Within just six months of selection, we had worked closely with the client to create, package and launch three distinctive shower gel formulations, all to time and within budget. Since launch, sales have significantly exceeded expectations.

Proven business model

What sets us apart

McBride's business is built around several key factors, including many years' experience in manufacturing and marketing Private Label products throughout Europe. Our SAP information systems and proven business processes maximise service and value, enabling newly acquired businesses to be rapidly integrated into the Group. Our scale drives cost-competitiveness and supports growth through investments in research and development, automation, efficiency and staff development.

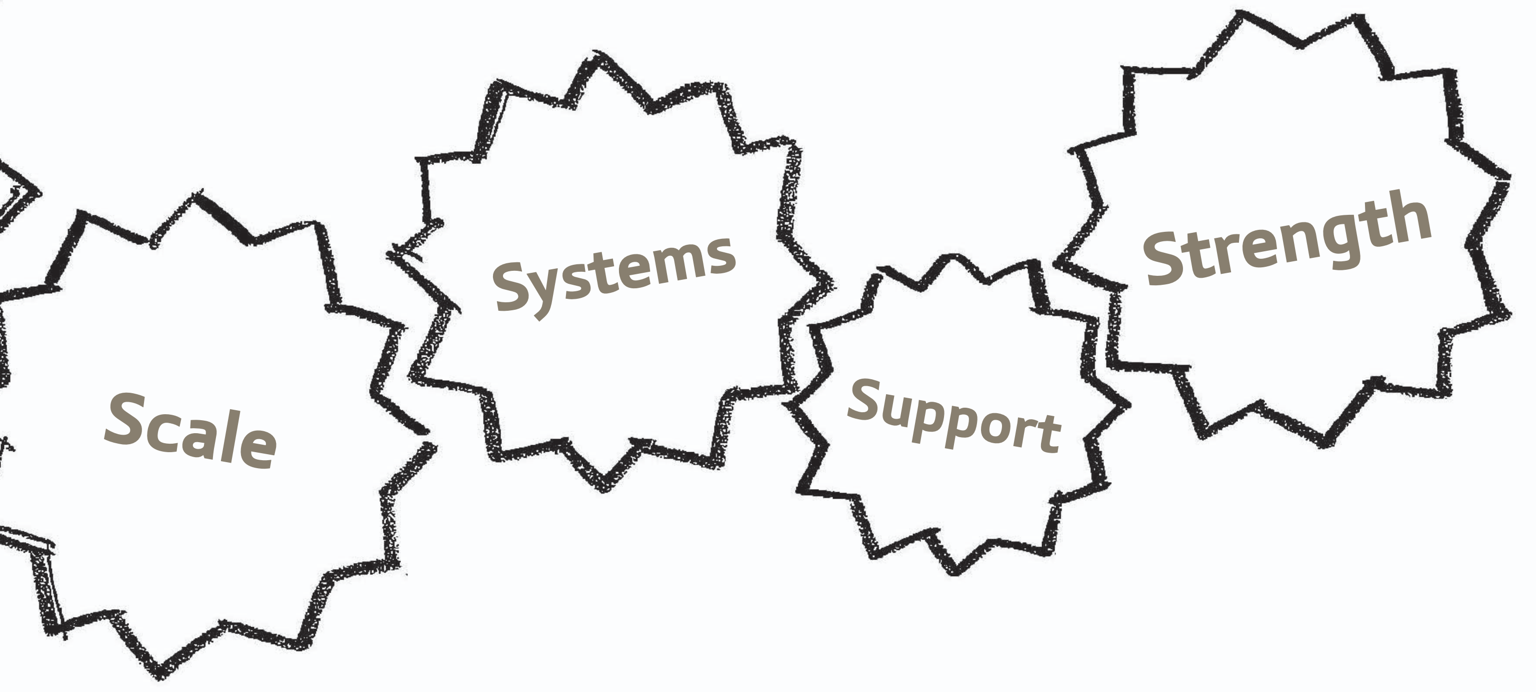
Excellent customer service

This is our number one key performance indicator. We will go to exceptional lengths to ensure we meet best-in-class service standards for the Private Label sector.

To achieve such performance levels, we work closely with our customers on accurate forecasting and stock-level monitoring throughout the supply chain, through which integrated systems drive production planning, stock holding, logistics and call-off from our suppliers.

Customer service extends beyond product delivery, to embrace advice on developing the Private Label category and technical and legislative aspects of product labelling.

In 2006 we became the first company to win for a second time a major UK grocery trade award, Best Own Label Supplier. This is a great achievement by our UK business, driven by our approach to customer service.



Cost competitiveness

Our 14 factories in six European countries give us unrivalled manufacturing scale in the Private Label industry. This is a key factor in enabling competitiveness, driving economies in purchasing, capital investment, new product development, warehousing and logistics.

We have invested over £50 million in our manufacturing assets over the last three years, to reduce overall costs, increase efficiency and capacity, support product development and to meet the increasing demands of health, safety and environmental legislation.

We ran over 100 improvement projects in Europe last year designed to reduce the impact of rising materials costs and develop innovative new formulation, materials and packaging solutions. Continuous improvement teams also involved some 20% of our European factory staff in improving manufacturing practices, waste reduction and machine efficiency.

We also use our scale to reduce our waste and energy usage. McBride WCE reduced waste by 18% last year to a total of 1.4%.

IT and business systems

Managing almost 10,000 live products takes both human expertise and robust IT and business systems. Our SAP-based IT infrastructure delivers the real-time information we need for critical decision-making.

This is thanks to a deep analysis and understanding of our business processes that helps us to define who needs to share and use each type of information.

Capturing every step of an order's passage through a factory enables total visibility and traceability, providing direct links to customers, suppliers and warehouses to help us meet increasingly demanding delivery timescales.

The provision of shared information on production line efficiencies, energy usage, labour efficiency and waste generation enables continuous improvement in productivity, asset utilisation and best practice.

Category management

Consumers throughout Europe are becoming more demanding, seeking out new products to meet their needs and provide best value. Product lifecycles are becoming shorter and product offerings more sophisticated.

To compete and win share with Private Label, retailers need strong partners to help them thrive in the rapidly changing market place.

McBride's understanding of product categories, consumers, markets and the role of Private Label makes us an unrivalled partner for our retail customers.

Our product development and category management skills ensure that our customers' own products are up to date with the latest consumer and competitor trends.

Fully understanding the latest market trends, monitoring price points, analysing product performance, leading innovation in formulation and packaging, delivering consumer benefits – these are all factors that enable McBride to help our customers develop and deliver Private Label ranges that match their target audiences and satisfy consumer needs.

Financial strength

Large retailers need strong suppliers who can invest in the growth and development of the Private Label sector.

McBride is roughly twice the size of the next largest dedicated European Private Label suppliers, with the widest product range and geographic coverage.

We're committed to constant investment in our development capability and in modern, well-invested manufacturing assets. This scale and a short decision-making process enable us to invest quickly, in line with the demands of speed to market.

Effective working capital management and controlled capital investment have delivered a strong free cash flow over the last five years, and our debt to equity ratio (gearing) at 30 June 2006 was just 0.3.

As a sign of their confidence, our banks increased their committed facilities to £100 million, allowing funds for further expansion.

A year of transition and significant progress

Lord Sheppard, Chairman
Miles Roberts, Chief Executive

Lord Sheppard, Chairman, and Miles Roberts, Chief Executive, reflect on a year of transition and on McBride's strategy.

How would you describe your first year as Chief Executive?

Miles Roberts: I am pleased with the progress we have made in many areas. We have strengthened our management team and worked together on a clear strategy for growth. I have spent a lot of time listening to and talking with colleagues, customers, suppliers and investors and there is a really good understanding of what we can achieve and what we need to do. We have had some excellent examples during the year of product development, customer service, efficiency improvements and working together across functions and geographies. We have delivered on all the key objectives we set ourselves – we have closed a UK factory, restructured the Western Continental Europe division, improved customer service and product quality and launched some excellent new products. However, we can do even better and our financial performance in Western Continental Europe was disappointing due to a mixture of external and internal factors.

Lord Sheppard: The overall economic environment has been one of the toughest on record. The Board is certainly pleased with the progress made in the year. The foundations have been laid for improved performance with a lower cost base, a much improved organisation and great clarity on what we need to do.

What were the key learnings during the year?

Miles Roberts: That our markets still have good growth potential but that we needed to address certain specific shortcomings to realise this potential. Private Label products have consistently grown share in all markets for many years; this is because they represent excellent value for consumers and provide attractive margins for our retail trade customers. McBride's success over the years has been due to our absolute focus on working closely with our customers to develop new Private Label products and delivering excellent customer service. Our analysis showed we had a significant opportunity to grow sales with the hard discount sector retailers and also that we were not working closely enough with our customers in most countries in Western Continental Europe. In some cases our customer service had slipped below acceptable levels. In the UK we identified the need to increase further our rate of new product development, particularly with regard to premium quality products.

We also confirmed that although we are already efficient there is further scope to reduce costs and increase asset utilisation. Finally, we identified a list of companies to target as potential acquisitions to increase our market coverage across Europe.

Lord Sheppard: We have benefited from a very thorough process to re-examine our objectives. It is encouraging to see the progress so far. After a number of years of good progress on cost saving, asset utilisation and customer service we do need to deliver more organic growth. Across the business there is a really good understanding of our strategy and a commitment to do whatever it takes to develop the quality and reputation of Private Label products and deliver the best results for our customers. This is augmented by an open style of management that encourages colleagues to greater sharing of knowledge and genuine teamwork to develop the business.

During the past few months we have completed two small acquisitions in the UK, absorbing production into our existing facilities, and benefits have been delivered exactly in line with our expectations.

What has been achieved to date?

Miles Roberts: The biggest changes are in Western Continental Europe where we have recruited an experienced Managing Director and moved to a decentralised organisation structure which brings our people much closer to their customers. In the second half we completed this reorganisation which also resulted in 85 people leaving the business; combined with factory savings this means that headcount in Western Continental Europe has been cut by over 10% in the year. We also invested in order to restore customer service levels which ended the year at a high level. In the UK we have developed significantly better versions of many of our key products, particularly in Personal Care where we have launched new premium ranges for a number of our key customers, but also in Household where we have launched much improved versions of washing up liquid and fabric conditioner. I am really pleased with the way our people have responded to the challenges we have set and the increased momentum we have behind our business at the moment.

Lord Sheppard: I have been encouraged particularly by the progress in Western Continental Europe where we seem to have a renewed energy and sense of purpose. We have clearly benefited by bringing in a small number of key senior people who have fitted very well into the Company and made an immediate contribution.

Could you comment on the financial performance in the past year?

Miles Roberts: Financial performance in the UK was stable – growth of around 3% was driven by Personal Care products which grew strongly following major product and range improvements with our key customers. We grew by almost 40% in Eastern Continental Europe and by 9% in Personal Care products generally but this was offset by price deflation and declining sales of Household products in France. External conditions were very challenging due on the one hand to a law change in France which led directly to price deflation, and on the other hand to a sharp increase in input costs on the back of the rise in the oil price. Raw material and energy related costs increased and we were able to mitigate a good part of this by improved factory efficiency and cost saving measures including product reformulations. Profits were up in the UK and Eastern Continental Europe but these were unfortunately more than offset by the decline in Western Continental Europe. Overall, however, the results demonstrate considerable resilience in such a challenging environment.

Lord Sheppard: It was clearly a challenging environment in France and it was important to take the necessary actions as quickly as we did. The high growth in Eastern Europe shows what can be achieved organically in this region.

What do you expect for the coming year?

Miles Roberts: Since the year end, trading has been as expected. Looking ahead, despite higher input costs and investment in the future growth of the business, the Group expects to make progress as we benefit from cost reduction initiatives and the recent acquisitions. Investments in support of our growth agenda will focus on marketing, research and development and certain key management positions. We will also increase capital expenditure with over half our spend on cost saving related projects.

What other growth opportunities do you foresee?

Miles Roberts: In our more mature markets there is a limit to the level of organic growth we can reasonably expect to achieve each year. Nonetheless we need to return the Western Continental Europe division to top line growth.

During the past few months we have completed two small acquisitions in the UK, absorbing production into our existing facilities, and benefits have been delivered exactly in line with our expectations. Beyond this we have a pipeline of prospects in several geographic markets for both small and larger scale acquisitions to strengthen our market positions and we are confident that our proven business model will enable us to create significant value in this way.

The indications from particularly the second half performance are for stronger growth in Household products, both in the UK and Western Continental Europe. By strengthening the organisation in Eastern Continental Europe as well, I am sure we can maintain our impressive momentum in this region.

What changes might we expect in the Board?

Lord Sheppard: I am very confident in the future of the business. Europe's consumers increasingly appreciate the quality and value of Private Label products in our sectors. Europe's retailers need and want to grow their Private Label products, not only to differentiate themselves from their competitors but also to improve their profitability. McBride alone has the scale and technical expertise to deliver the Private Label products to meet this demand across Europe. Most importantly we have a strong management team, focused and committed to deliver.

I have been Chairman for over 13 years and I have expressed my wish to retire once my successor has been appointed. The process to identify a new Chairman for the Group will be initiated in the near future. I would like to thank all my colleagues at McBride for their support and commitment in the past year.

Our objectives
and strategy

McBride is Europe's leading provider of Private Label Household and Personal Care products. We are totally dedicated to the sustained growth of Private Label category sales.

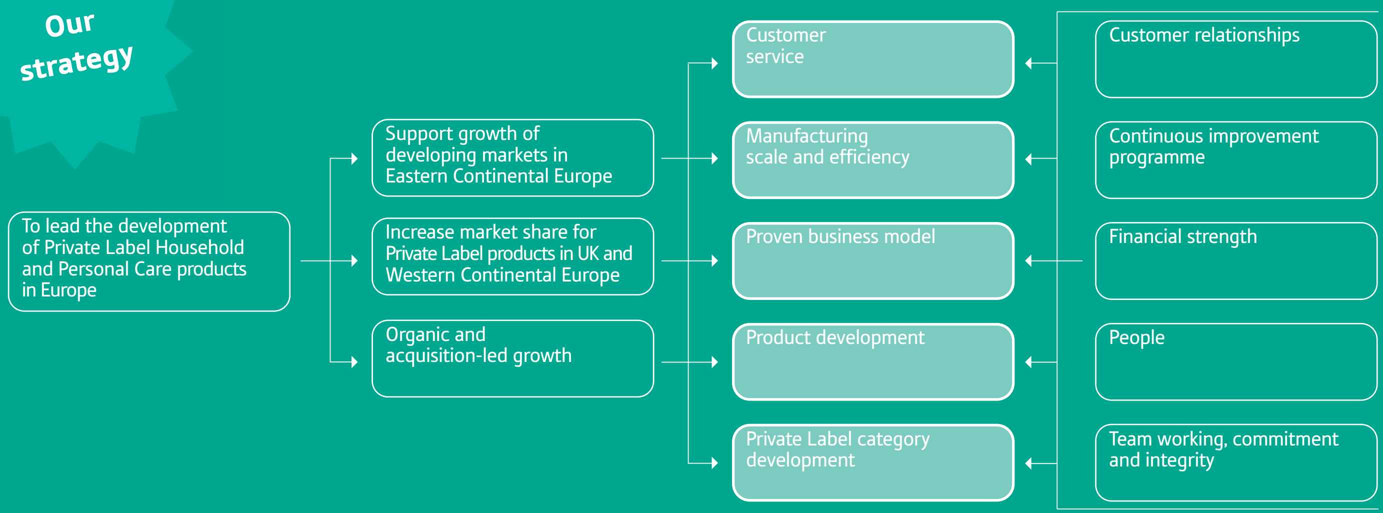
Our key objectives are:

- To grow sales organically in all markets, through product innovation and excellent customer service
- To continuously improve efficiency and value for our customers
- To acquire businesses in both existing and new markets that are complementary to existing operations

We achieve these through:

- Understanding customer requirements for product and service and our commitment to delivering whatever is required
- Handling huge levels of operational complexity, from thousands of individual products, with low levels of capital employed and high levels of customer service
- Promoting team working, open-mindedness and respect for colleagues, customers and suppliers, combined with a commitment to continuous improvement and delivering on our promises

Our strategy



Business review

1

1 Statement of compliance

The Business Review that follows is intended largely to reflect the recommendations of the Accounting Standard Board's 2006 reporting statement of best practice on the Business Review. The statement has only recently been published and we intend to monitor developments in best practice with a view to further improving our Business Review in the future to enhance its usefulness to readers.

2 Cautionary statement

The Business Review has been prepared for the shareholders of the Company, as a body, and no other persons. Its purpose is to assist shareholders of the Company to assess the strategies adopted by the Group and the potential for those strategies to succeed and for no other purpose. This Business Review contains forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated. No assurances can be given that the forward looking statements in this Business Review will be realised. The forward looking statements reflect the knowledge and information available at the date of preparation.

3 Group business objectives and long-term strategy

3.1 Business objectives and long-term strategy

McBride is Europe's leading provider of Private Label Household and Personal Care products and is totally dedicated to the sustained growth of Private Label category sales.

Working closely with our customers we develop products to meet their demands for price, service and innovation. Our technical expertise ensures that retailers' Private Label products can match or exceed the performance of major brand equivalents.

Our company culture strives to promote teamworking, open-mindedness and respect for colleagues, customers and suppliers, combined with an attitude of striving for continuous improvement and a commitment to deliver on our promises.

The key elements of McBride's business strategy to deliver long-term shareholder value are:

- >> To grow sales organically in all markets, through cost effective product innovation, category development and excellent customer service
- >> To continuously improve efficiency and value for our customers
- >> To acquire businesses that are complementary to existing operations in both existing and new markets

McBride has demonstrated particular strength in:

- >> Understanding customer requirements for product and service and commitment to deliver what is required
- >> Handling huge levels of operational complexity, in terms of numbers of individual products, with low levels of capital employed and high levels of customer service.

3.2 Key performance indicators

McBride uses a number of key performance indicators (KPIs) across its various businesses and at the Group level to measure its performance and progress against its strategic objectives. The most important of these KPIs at the Group level focus on the four key areas of organic growth, customer service, asset utilisation and return on capital employed.

3.2.1 Organic growth

A key element underpinning the Group's strategy is to deliver organic growth in revenue. Organic revenue growth is measured by making appropriate adjustments to reported revenue to reflect acquisitions made in current and prior years. In determining organic revenue growth for the year ended 30 June 2006, reported revenue figures in 2005 and 2006 have been adjusted to exclude revenue attributable to Sanmex International in 2006 and include a full year of revenue from APL in 2005.

The table below sets out reported revenue for the years ended 30 June 2005 and 2006 and reported and organic revenue growth between these two years by product category and for the Group. The key features of organic growth for the year ended 30 June 2006 were Personal Care achieving strong growth of 6%, household declining 2% and a 1% decline for the Group.

	2006 £m	2005 £m	Reported growth %	Organic growth %
Household products	**434.9**	441.0	-1	-2
Personal Care products	**105.2**	96.1	+9	+6
Total	**540.1**	537.1	+1	-1

3.2.2 Customer service

Customer service is our main operational priority and a key driver supporting the Group's growth strategy. We measure our performance in this area by reference to success in delivering products ordered within the agreed timescale. On this basis customer service levels achieved across the Group in the year ended 30 June 2006 were the same as in the prior year at 97.1%. In addition, whilst customer service levels fell back in the first half of the year they improved to 97.8% in the second half, following improvements in forecasting processes and investments in improved plant reliability.

3.2.3 Asset utilisation

Asset turnover (net revenue/capital employed) measures the Group's efficiency in utilising its physical assets. The slight fall in asset utilisation reflects the increase in capital employed resulting from the Sanmex acquisition close to the year end.

	2006 times	2005 times	Change times
Asset turnover ratio	**4.2**	4.3	(0.1)


2


3

1. Product performance testing in Poland
2. New product development at Ieper Personal Care
3. In 2006 product development and quality control in Poland was significantly enhanced

3.2.4 Return on capital employed

Return on capital employed measures the efficiency with which new cash is invested and through which existing capital delivers profit. It is calculated by dividing operating profit before exceptional items by capital employed (capital employed being defined as the average of opening and closing net assets, excluding net debt). The lower return on capital achieved in the year ended 30 June 2006 reflects both lower operating profit and the increase in capital employed resulting from the Sanmex acquisition close to the year end.

	2006 %	2005 %	Change pp[(1)]
Return on capital employed	**24.3**	28.4	(4.1)

Notes
(1) pp means percentage point

4 Description of the business

McBride is Europe's leading provider of Private Label Household and Personal Care products. It produces, packages, distributes and sells its products to leading retailers principally across the UK, Western Continental Europe and Eastern Continental Europe. The Group has 14 factories in six countries – the UK, Belgium, France, Italy, Poland and Spain – which are integrated with research and development and sales activities in those countries. It also has sales offices in the Czech Republic, Hungary and Russia and a representative office in Hong Kong.

The Group employs around 4,500 people and has three main divisions: UK, Western Continental Europe and Eastern Continental Europe.

McBride is a public limited company that is incorporated, domiciled and has its registered office in England. Its shares are publicly traded and it is not under the control of any single shareholder.

4.1 UK

McBride's UK business is the market leader in its chosen Private Label Household and Personal Care product categories. Its customers include all the major UK grocery retailers.

The Household products business supplies primarily laundry detergents, fabric softeners, household cleaners, dishwashing products and air care products from production facilities in Barrow, Burnley, Hull and Middleton (Greater Manchester). Barrow produces primarily laundry detergent powders. Household cleaners are the main product category manufactured in Burnley. Production at Middleton is focused on washing up liquid, fabric conditioner and bleach. Hull produces Household product aerosols, air care and Household liquid products.

The Personal Care products business has production facilities in Bradford and Hull. Bradford's production focuses on shampoo, conditioner, shower gels and oral care whilst Hull produces Personal Care aerosols such as antiperspirant deodorants, hair sprays and shaving gels.

Household products account for approximately 75% of revenue in the UK business whilst Personal Care products account for the remaining 25%. 3,000 different products are delivered to 800 destinations across the UK with 35,000 deliveries per annum comprising 60 million cases of product.

The UK business has approximately 2,100 employees.

4.2 Western Continental Europe

McBride's Western Continental Europe division operates in all the major countries in this area with its key markets being France, Belgium, Italy, The Netherlands and Spain.

The Group's Western Continental Europe business is supplied primarily from factories in four countries. The major production facilities are located in Ieper (2 factories) and Estaimpuis (Belgium); Moyaux, Rosporden and Verdun (France); Solaro (Italy); and Sallent (Spain).

The Household products business supplies a similar portfolio of products to the UK business. Household products are manufactured at all the sites across Europe other than one of the factories in Ieper that is dedicated to Personal Care products. In Ieper, the major Household product categories produced are Household liquids and bleach. Production at Estaimpuis is focused on laundry detergents and toilet cleaners. The facilities in France produce primarily bleach, aerosols and laundry detergents. Laundry detergents are the main product category produced in Solaro whilst in Sallent production focuses on Household liquids, laundry detergents and bleach.

The Western Continental Europe Personal Care products business is supplied primarily from the Personal Care facility in Ieper in Belgium, where the major product categories produced are liquid handwash and shower gel.

Around 90% of revenue in the Western Continental Europe business is in Household products with 10% in Personal Care products. Over 4,600 different products are delivered to 1,200 locations across Western Continental Europe with 49,000 deliveries per annum of 66 million cases of product.

The division has approximately 2,100 employees and is organised into four customer focused business units organised by geographic territory each with responsibility for developing its markets and delivering profits.


1

4.3 Eastern Continental Europe
McBride's Eastern Continental Europe division focuses on all European markets outside the UK and Western Continental Europe, primarily Poland, Russia, the Czech Republic and Hungary.

This division currently has one production facility in Poland that produces a range of Household and Personal Care products.

The Eastern Continental Europe division has around 55% of revenue in Household products and 45% in Personal Care products.

The business has approximately 300 employees.

5 Business performance
5.1 Group review
5.1.1 Overview
The Group made good progress given conditions across its markets, achieving revenue growth in the UK and Eastern Continental Europe offset by a decline in Western Continental Europe. Across the Group as a whole, Personal Care products revenue grew by 9% whilst Household products revenue declined 1%.

Direct costs of manufacture rose due to raw material, packaging and energy price increases fuelled primarily by rises in oil and gas prices. Operational efficiencies, including waste reduction, labour efficiencies and product reformulations, and administrative cost savings mitigated to some extent the effects of input cost increases.

Profitability improved in the UK and Eastern Continental Europe. However, overall Group profitability declined relative to the prior year primarily due to lower Household product revenues in Western Continental Europe.

5.1.2 Progress against business objectives
Our target Private Label markets have demonstrated sustained development and we believe there remain significant future growth opportunities. We have renewed focus on positioning the business to benefit from the favourable market dynamics and enhance shareholder value. We are at a relatively early stage in this process but there were some important developments during the year.

5.1.2.1 Reorganisation of Western Continental Europe
A fundamental reorganisation of the Western Continental Europe division was completed. The division was reorganised into four customer focused business units organised by geographic territory, each with clear accountability for developing its markets and delivering profits.

5.1.2.2 Improving efficiency and asset utilisation
The Group has a relentless focus on extracting operating efficiencies to support its competitive position and future prospects. During the year, as part of the Western Continental Europe reorganisation, a review of operations enabled administrative headcount to be reduced by 85 and a further reduction of over 100 jobs in its manufacturing operations, resulting in overall headcount reduction across this division of over 10%. In the UK, the transfer of Bampton and Sanmex production into other Group facilities improved efficiency and asset utilisation. Factory waste reduced across the Group and there were various investments to deliver greater automation, capacity and reliability.

5.1.2.3 Customer relationships
There is renewed focus on deepening our customer relationships which provide the basis for delivering sustainable organic growth. Key to this is further increasing the recognition that a comprehensive Private Label strategy offers retailers the opportunity to increase profits and margins relative to sales of branded alternatives whilst delivering quality and value to consumers. Category development will be supported by new product innovation, product quality improvements, excellence in customer service and greater management accountability.

New product development in the UK Personal Care product portfolio contributed strongly to the increase in category revenue that is a feature of this year's results. In addition, customer service levels improved in Western Continental Europe and were maintained at a Group level against a background of the reorganisation of the Western Continental Europe division, production transfers in the UK and significant investments in several of our production facilities. Improvements in forecasting processes and investments in improved plant reliability resulted in the Group's key customer service measure improving to 97.8% in the second half.

5.1.2.4 Acquisitions
The Group considers selective acquisitions that support its broader strategy to benefit from the favourable Private Label market dynamics and enhance shareholder value. Two in-fill acquisitions have been agreed recently, namely the Household liquids businesses of Sanmex International, announced in April 2006, and Coventry Chemicals, that we agreed to acquire after the year end. These acquisitions provide opportunities to enhance shareholder value as a result of improved efficiencies and asset utilisation derived by transferring production into existing facilities. The Group continues to review acquisition opportunities including those that will enable it to either enter or significantly enhance its presence in specific product categories, geographic markets or distribution channels.


2


3

1. Washing up liquid production in Ieper Household
2. Front and back labels applied automatically prior to packing
3. A number of variants of washing up liquid are produced at the Ieper site

5.1.3 Group financial review

5.1.3.1 Overview

Revenue by geographic origin and product category together with group operating profit (before exceptional items) are summarised below:

	2006 £m	2005 £m	Change
Revenue			
By geographic origin			
UK	**249.8**	243.3	+3%
Western Continental Europe	**280.3**	286.2	-2%
Eastern Continental Europe	**21.9**	15.8	+39%
Less: inter segment revenue	**(11.9)**	(8.2)	n/a
Total	**540.1**	537.1	+1%
By product category			
Household	**434.9**	441.0	-1%
Personal Care	**105.2**	96.1	+9%
Total	**540.1**	537.1	+1%
Group operating profit(1)	**31.0**	35.0	-11%

Notes
(1) Operating profit before exceptional items

5.1.3.2 Revenue

Revenue for the year ended 30 June 2006 increased £3.0 million to £540.1 million (2005: £537.1m) including £1.6 million of revenue attributable to the acquisition of Sanmex International.

Revenue for the year particularly reflected a strong Personal Care sector where good broad based headline and organic growth was achieved across both product categories and geographic territories. This mitigated the performance of the Household sector, where flat revenue in the UK and strong growth in the Eastern Continental Europe division (primarily in Poland) offset weakness in the Western Continental Europe division, particularly in France. The performance in France mainly reflects price deflation resulting partly from changes in the law governing relationships between retailers and their suppliers.

These trends are reflected in revenue by product category and geography. Personal Care products revenue increased 9% to £105.2 million (2005: £96.1m) whilst Household products revenue was 1% lower at £434.9 million (2005: £441.0m). In terms of revenue by origin, the UK division's revenue increased 3% to £249.8 million (2005: £243.3m), with growth accelerating in the second half, whilst Western Continental Europe revenue was £280.3 million (2005: £286.2m) and the Eastern Continental Europe division's revenues grew 39% to £21.9 million (2005: £15.8m).

There was no significant currency impact year on year as the key average Euro/sterling exchange rate was 1.46 in both years.

5.1.3.3 Operating profit

Group operating profit for the year, before exceptional items, was £31.0 million (2005: £35.0m). The most significant factor affecting profitability relative to the previous year was higher raw material, packaging and energy costs. The other main factor impacting profitability was lower revenue in Household products in the Western Continental Europe division. Set against this, the Group was successful in reducing other costs, reflected particularly in the reduction in administrative costs (excluding exceptional items).

5.2 UK divisional review

5.2.1 Key developments

	2006	2005	Change
Revenue	**£249.8m**	£243.3m	+3%
Operating profit(1)	**£21.8m**	£21.4m	+2%
Average number of employees	**2,120**	2,158	-2%
Proportion of revenue in Household(2)	**75%**	75%	n/a
Proportion of revenue in Personal Care(2)	**25%**	25%	n/a

- >> Private Label market leadership maintained in competitive Household and Personal Care markets
- >> Private Label Household and Personal Care products market share by volume were 34% and 22% respectively (2005: 33% and 22%)
- >> Financial performance strengthened as year progressed
- >> Significant investment in dishwash production capability at Barrow
- >> Bampton factory closed and production successfully moved to Hull, reducing overheads
- >> Winner of The Grocer magazine Gold Award for Best Own Label Supplier across all product categories
- >> Successful acquisitions from Sanmex International and, after the year end, Coventry Chemicals

(1) Before exceptional items
(2) McBride's Private Label revenue

1

1. End of line automation at Barrow site in UK
2. Pallets are stacked to pre programmed pallet configuration
3. Auto palletiser for Household products in Ieper

5.2.2 Markets

Whilst the Household products market remained competitive, Private Label continued its trend of increasing overall market share. Private Label value growth of 4% was achieved in the year to June 2006 compared to just 1% growth for the total Household products market. Product innovation in the higher value categories of machine dishwash and air care were the main positive influences on the overall market whilst Private Label growth was particularly strong in the air care and washing up liquid categories. Reflecting its growth, in the year to June 2006, Private Label increased its volume share of the overall Household products market to 34% (2005: 33%)[(1)].

Private Label Personal Care products experienced similar trends. The Personal Care market in which we operate has shown modest volume growth (c.1%) in line with the total market growth and now represents some 22% share by volume.

The continuing growth in Private Label share reflects the key benefits of Private Label products, namely offering retailers the opportunity to increase profits and margins relative to sales of branded alternatives whilst delivering quality and value to consumers. Given its significant presence in these markets, it also reflects McBride's continuing success in driving overall category growth by focusing on excellent new product development and launch activity, strong customer relationships, consumer understanding and providing value through consistent product quality and well executed promotions.

(1) Source of market data: McBride estimates based on Taylor Nelson Sofres

5.2.3 Financial performance

Total UK revenue grew by 3% to £249.8 million (2005: £243.3m), including £1.6 million of revenue attributable to the acquisition of Sanmex International. The year was characterised by stronger revenue in the second half and some modest price increases.

The Personal Care business had an excellent year, with revenue growth of 12%, and significantly increased its share of the available market. Household products experienced a revenue decline of 1%.

The progress in Personal Care reflects renewed focus on new product development, with more resources dedicated to this activity which yielded a large number of product launches.

The UK division increased operating profit, before exceptional items, by 2% to £21.8 million (2005: £21.4m) with a stronger second half performance due to a gradual reduction in administrative costs and improved revenues.

5.2.4 Operations

The overall operational priorities for the UK division in the year under review were a continued focus on customer service and driving operating efficiencies.

Customer service is our number one operational priority. We measure our performance in this area particularly by success in delivering product ordered within the agreed timescales. Customers require delivery lead times of as little as 48 hours and expect us to manage significant fluctuations in demand. Our business processes and systems enabled successful delivery of shipments from 3,000 different products and 5 factories to 800 destinations across the UK.

As in previous years there were a number of significant cost improvements including projects to reduce waste, improve labour efficiency and optimise purchasing arrangements across Europe. In addition, a number of major capital investment projects completed in the year were focused on efficiency improvements. These included investment in robot packing and pallet stacking to packing lines and automatic guided vehicles, replacing manned forklift trucks, in the production area. This investment reduced factory costs and also improved the health and safety environment. In addition, the closure of Bampton and transfer of its aircare production to our Hull facility was completed on time in March 2006 leading to reductions in both direct and administrative costs.

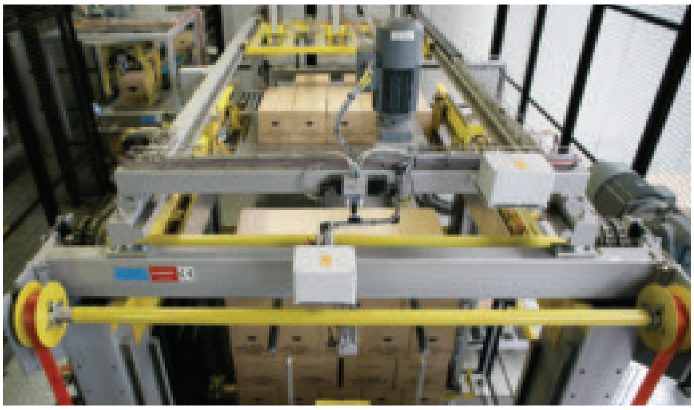
Other major capital investments included increasing capacity in Personal Care to support growing sales, through investment in blow moulding and bottle filling, and the capability to produce shelf-ready packaging formats required by some leading customers. In April 2006, we announced the purchase of Sanmex International's Household liquids business. The subsequent transfer of assets and production into three existing McBride facilities was implemented in line with plan with customer service maintained throughout this transfer.

5.2.5 People

Two areas of the business achieved the new Investors in People (IiP) standard with particularly positive comments made about employees' teamwork and knowledge of the business' direction.

Strong cross functional teamwork was directly responsible for the UK business receiving the Gold Award for Best Own Label Supplier 2006 across all own label product categories in the annual 'The Grocer' magazine awards.


2


3

This is an important recognition as it is based on our supermarket customers' votes on the basis of key criteria including account management skills, reliability of deliveries, consistency of product quality, value for money, ability to work with the buyer to develop the category, new product development and crisis management skills and procedures.

5.2.6 Health, safety and environment

McBride's commitment to the effective management of health and safety continues, reflected in lost time accidents and total accidents in the UK reducing by 46% and 19% respectively in the year. The group continues to focus on delivering further improvements in health and safety. For example, the recent automation investment in Barrow is expected to deliver an improved health and safety environment.

The recent focus of environmental activities has been investments at all sites to achieve the ISO 14001 environmental management standard (currently held by four out of five sites) and the Integrated Pollution and Prevention Control (IPPC) accreditation (which the four relevant sites are on course to achieve by the required deadline of September 2006). The key project in the year under review was the modernisation of the raw material storage facilities in Middleton.

5.3 Western Continental Europe divisional review

5.3.1 Key developments

	2006	2005	Change
Revenue	**£280.3m**	£286.2m	-2%
Operating profit(1)	**£9.0m**	£13.7m	-34%
Average number of employees	**2,101**	2,179	-4%
Proportion of revenue in Household(2)	**89%**	90%	n/a
Proportion of revenue in Personal Care(2)	**11%**	10%	n/a

- European household product markets mixed, with tougher conditions in McBride's key French and Benelux markets
- Restructuring into four customer focused business units completed
- Headcount reduced by over 10% towards the end of the year
- Personal care revenues grew by over 7%
- Customer service improved
- Investments in expanding personal care production in Ieper and dish wash production in Italy
- 18% year on year reduction in waste

(1) Before exceptional items
(2) McBride's Private Label revenue

5.3.2 Markets

Household products market growth was mixed; there was growth of 5% in Spain, 2% in Germany and 1% in Italy but declines in France, Belgium and Netherlands due to price reductions and high levels of promotional activity. However, Private Label value share continued to grow in all markets except Netherlands.

In our largest market, France, overall French Household and Personal Care markets declined in value terms by 3% in the year to June 2006, the decline in the Private Label markets was limited to 1% in both cases. Consequently, Private Label increased its volume share of the overall French Household and Personal Care markets to 30% and 21% respectively (year to June 2005: 29% and 20% respectively)(1).

One of the contributory factors to the market environment in France was disruption caused by the introduction of the Loi Dutreill that changed the trading terms between all consumer goods manufacturers and retailers. The new legislation particularly impacted trading patterns in early 2006 but recently the market has shown signs of recovery.

(1) Source of market data: Taylor Nelson Sofres

5.3.3 Financial performance

Total Western Continental Europe revenue declined by 2% to £280.3 million (2005: £286.2m). Operating profits, before exceptional items, were £9.0 million (2005: £13.7m) reflecting higher raw material, packaging and energy input costs and lower Household products revenue.

Whilst these results are disappointing, they should be assessed in the context of the difficult market conditions across the region, particularly in the Household products sector in France. There were some encouraging aspects to the results. Personal Care products made excellent progress with revenue up over 7%.

In addition, the Italian business performed well, registering close to 4% revenue growth in a flat overall market.

McBride has the capabilities to drive the growth of Private Label products across Western Continental Europe. We will continue to increase the focus on the development of Private Label categories and the consequent benefit to retailers.

1. Sophisticated systems control each batch of production
2. Automated production flows insure consistency and reliability
3. Consistency of product and packaging is controlled and recorded at all stages of production

5.3.4 Operations

Key improvements were made by successfully implementing a significant business restructuring, improving customer service and extracting further operating efficiencies particularly through targeted investments at our factories. Further investments were made in support of product innovation and growing sales.

Towards the end of the year, a fundamental reorganisation of the Western Continental Europe division was completed. The division was reorganised into four customer focused business units organised by geographic territory, each with clear accountability for developing its sales and profits. The reorganisation has also ensured enhanced responsiveness to, and focus on, customers. It should enable McBride to participate more effectively in growing markets such as Italy and Spain, in Household products, and across all Personal Care markets. Headcount in the Western Continental Europe division was reduced by over 10%.

Our increased focus on customer service resulted in improved customer service levels in the second half, i.e. delivery of over 4,600 products within the agreed timescales from 8 factories to 1,200 destinations. The improvement reflects investments in improved plant reliability and improvements in forecasting processes.

There were a number of targeted investments made in the year to support increased efficiency, product innovation and growing sales. Reducing cost and improving efficiency were the main drivers behind investments in new blow moulding and additional end of line automation. Reflecting an important product innovation in the year, investment was made to produce the soluble wrappers for new dishwash tablets. In order to build upon our success with Personal Care products, we decided to invest in an expansion of our Personal Care capacity.

There was also a strong focus on driving operating efficiencies across the division. Of particular note was the 18% reduction in factory waste, due to targeted investment and various continuous improvement projects across sites in Western Continental Europe. Other efficiency initiatives included projects aimed at using new product formulations, different materials and improved packaging.

5.3.5 People

During the year, employees in Western Continental Europe faced the challenges of operating in a difficult trading environment and the uncertainties created by the restructuring of the business that included the difficult but necessary decision to reduce headcount.

As part of the business reorganisation, significant attention was focused on strengthening the senior management team to meet the requirements of the new organisation. This included the external appointment of a new managing director for the overall business and other appointments to a variety of new senior management roles.

We have remained an advocate for a continuous improvement approach to business and encourage involvement at all levels in projects that help take our business forward. During the year many employees in Western Continental Europe were involved in continuous improvement projects relating to manufacturing practices, waste reduction and machine efficiency.

The focus on involvement, as well as improved process effectiveness, will continue to play an important role in the development of our people and organisation.

5.3.6 Health, safety and environment

In the Western Continental Europe business, there was a continued focus on improving performance in health, safety and environment matters, leading to a 10% reduction in lost time accidents.

5.4 Eastern Continental Europe divisional review

5.4.1 Key developments

	2006	2005	Change
Revenue	**£21.9m**	£15.8m	+39%
Operating profit	**£1.6m**	£1.2m	+33%
Average number of employees	**295**	230	+28%
Proportion of revenue in Household(1)	**57%**	48%	n/a
Proportion of revenue in Personal Care(1)	**43%**	52%	n/a

- >> Significant expansion of Polish production facility to support growing sales in the region
- >> Household and Personal Care products markets grew by 3% and 4% across core territories in Central and Eastern Europe
- >> Total revenue and operating profit increased 39% and 33% respectively
- >> Significant new contract for production of Household and Personal Care products
- >> Headcount increased by nearly 30% to support growth
- >> Increased exports from our Polish operation into Scandinavia and the Baltics

(1) McBride's Private Label revenue


1


2


3

5.4.2 Markets

The core markets of the Eastern Continental Europe division, Poland, Czech Republic, Hungary and Slovakia, continue to experience good growth driven by a number of specific factors supporting the growth of the Private Label category. These include continued expansion of international retailers and discounters in the region, ongoing extensions of retailers' Private Label offering, accelerating retail consolidation and increasing market share for discounters.

Whilst most activity in Private Label Household and Personal Care products in Eastern Continental Europe has been in the "low value" sector, reflecting the price sensitivity of consumers in the region, standard and premium products have started to emerge.

This market background is evident in market data indicating that in McBride's core markets in the region, Household and Personal Care products markets increased in value terms by 3% and 4% respectively in the year to 31 December 2005. In Poland, the biggest market in the Group's Eastern Continental Europe division, Private Label also increased its share of the available market.(1)

(1) Source of market data: Euromonitor

5.4.3 Financial performance

McBride's Eastern Continental Europe division enjoyed a good financial performance in the year ended 30 June 2006. Revenue grew 39% to £21.9 million (2005: £15.8m) reflecting increased production from the Polish operation, including a significant new contract for the production of Household and Personal Care products on behalf of a major branded company.

Operating profit, before exceptional items, for the Eastern Continental Europe division increased 33% to £1.6 million (2005: £1.2m).

5.4.4 Operations

The key operational priority for the Eastern Continental Europe division was implementation of a significant investment to increase capacity in the Group's factory in Poland to support growing sales. This investment has increased production capacity by 40%. The investment focused on introducing new blow moulders, filling lines and storage tanks, the delivery of enhanced research and development and testing facilities and further expansion of warehouse facilities.

5.4.5 People

The key challenge for the Eastern Continental Europe business was to deliver a recruitment programme to support the growth in production at the facility in Poland. During the year ended 30 June 2006, the business increased average employee numbers by nearly 30% to 295.

5.4.6 Health, safety and environment

Within the major facility operated by the Eastern Continental Europe business in Poland there is a constant focus on improving health, safety and environmental performance. This is reflected in the reduction in lost time accidents, down in number by 50% relative to the prior year, despite a significant increase in employee numbers. It is also evident in the work completed that contributed to reducing effluent waste from the Polish plant by over 18%.

6 Resources and relationships

6.1 Resources

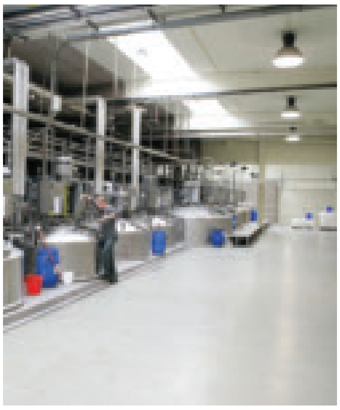
McBride has a range of resources that underpin its business and support its strategy. These assist in giving the Group a competitive advantage in the markets in which it operates. We continue to invest in the areas listed below to maintain our leading position in our chosen markets.

6.1.1 Employees

During the year ended 30 June 2006, the Group had an average of 4,527 employees. We recognise that the success of our business is dependent on the quality and commitment of our employees. The quality and effectiveness of the management of the Group's people is therefore critical to the attainment of its business objectives.

The Group is committed to the recruitment, retention and development of its employees and to helping them achieve their full career potential with McBride. All parts of the UK business have Investors in People accreditation. Employee satisfaction is monitored across all parts of the Group through a rolling programme of employee opinion surveys that have been in place for more than 13 years.

Annual performance appraisals are conducted for all employees which provide the opportunity to review performance, clarify responsibilities and objectives, address employees' development needs and help match individuals' career aspirations with the business needs of the Group.



1

2

3

The Group is committed to open communication with employees both directly and, where appropriate, via their representatives. This is supported by the regular use of various communication channels such as site visits and open discussions involving senior managers, briefings, listening groups, information bulletins and newsletters. In addition, senior management conferences are held regularly to set out the Group's strategy and performance and to provide clear direction on our goals and expectations. This communication process is cascaded through the Group with local management teams holding similar conferences to communicate local strategy, performance, goals and expectations in the context of the Group position.

Other components of the Group's personnel resources strategy include commitments to the highest possible standards of health and safety, equal opportunities and the provision of market-competitive salaries and benefits.

6.1.2 Reputation and market position

McBride is one of the largest suppliers of Private Label Household and Personal Care products in its major markets in the UK, France and, increasingly, Poland. The quality of its products and customer service is consistently rated highly in independent surveys. Most recently, the UK business won for the second time The Grocer magazine's Gold Award for Best Own Label Supplier across all product categories and for the sixth consecutive year won the award for the Best Private Label Household and Personal Care Products Supplier. We value our reputation, both as a supplier of Household and Personal Care products and as a key part of the communities in which we operate.

6.2 Relationships

McBride works closely with a range of stakeholders that have a significant influence on the ongoing success of the business.

6.2.1 Our customers

The Group's customers are the leading grocery retailers across Europe. Like all businesses, the Group's future success is dependent on maintaining and developing its relations with current and potential customers. Excellence in customer service is the Group's main operational priority and is a key driver supporting our growth strategy. The Group also works closely with customers to develop new products to meet their requirements. Senior management maintain key customer relations at both corporate and business unit level.

6.2.2 Our consumers

Millions of people use the Group's products on a regular basis. However, as a Private Label supplier, the Group has limited direct contact with the ultimate users of its products. Nevertheless, the Group has developed considerable consumer expertise through extensive experience in Private Label category development, the use of consumer panels as part of new product development processes and active monitoring of market developments by our marketing teams. This expertise enables us to add value to both our own business and that of our customers.

6.2.3 Our suppliers

We rely on a range of suppliers to provide goods and services used in our operations. These include manufacturers of raw materials, packaging and production and information technology equipment and energy suppliers. These relationships are generally managed through both our central procurement team and the relevant operational teams. We maintain active dialogue with our suppliers with the aim of developing mutually beneficial long-term relationships. This dialogue typically extends from optimising our purchasing arrangements, availability of alternative materials through to reducing the use of packaging and other environmental, social and ethical aspects of our dealings with suppliers.

7 Other financial matters

7.1 Adoption of International Financial Reporting Standard (IFRS)

With effect from 1 July 2005, the Group has moved to reporting its financial results in accordance with IFRS as adopted for use in the European Union. The results for the year ended 30 June 2005 have been restated except with regard to IAS 32/39 Financial Instruments, where the Group has taken the option to defer the implementation of these standards to the year ended 30 June 2006. A reconciliation between IFRS and UK accounting standards is provided for the year ended 30 June 2005 in note 28 on pages 68 to 71.

7.2 Exceptional items

There was a £3.8 million pre-tax operating exceptional charge to the income statement in the year (2005: £3.0m). This related primarily to a programme to reduce administrative costs in the Western Continental Europe division, through a reduction of 85 jobs without significant change in support provided to the business.

7.3 Profit before tax and tax charge

Profit before tax for the year was £25.9 million (2005: £30.6m) and before exceptional items it was £29.7 million (2005: £33.6m). Net finance costs were slightly lower than the prior year at £1.3 million (2005: £1.4m).

The £7.5 million taxation charge for the year represents a 29% effective rate, 1% less than in the prior year. It is believed that this rate is sustainable in the near future.

7.4 Earnings per share and dividends

Basic earnings per share (EPS) were 10.3p (2005: 12.0p). Basic EPS, before exceptional items, reduced 11% to 11.7p (2005: 13.2p). The weighted average number of shares in issue in the year used in calculating these EPS figures was 177,364,227 (2005: 177,122,822).

A final dividend of 3.5p per share, an increase of 6%, is recommended, giving a full year dividend of 5.1p, an overall increase of 6%. The final dividend, if approved by shareholders at the AGM on 31 October 2006, will be paid on 24 November 2006 to shareholders on the register on 27 October 2006. The ex-dividend date will be 25 October 2006. The £9.0m total dividend for the year is covered 2.3 times by earnings before exceptional items.

4

5

1. Mixing department of Ieper Household factory
2. PET bottle production
3. Thousands of bottle caps are fed by conveyor to the filling lines
4. Angleneck bottle production at Ieper Household
5. End of filling line automation in Ieper Household factory

7.5 Sanmex acquisition
In April 2006, the Group announced the acquisition of the Household liquids business, including inventory and some equipment, of Sanmex International Limited (Sanmex), a UK based Private Label supplier, for a total consideration of £7.6 million. Its integration into the Group's Household products business has been successfully completed in line with plan, with production having been transferred into existing facilities.

7.6 Cash flow
Cash flow – before financing activities and excluding the Sanmex acquisition and exceptional items – remained strong at £20.0 million (2005: £27.5m) in spite of significant increases in input costs, lower Household products revenues in Western Continental Europe and a modest working capital outflow of £2.8 million (2005: £1.1m inflow). Capital expenditure, net of disposals, was £17.3 million (2005: £17.5m) with the vast majority of the spend on factory automation, new product development, capacity expansion or customer satisfaction projects.

Net debt rose £4.7 million in the year to £29.1 million after £24.7 million of other outflows. Cash outflows relating to exceptional items were £5.5 million and included the remaining £2.6 million of the £3.0 million exceptional charge in the year ended 30 June 2005 as well as £2.9 million of the £3.8 million exceptional charge in the year ended 30 June 2006. Other outflows included £8.7 million in dividend payments, £7.3 million on the Sanmex acquisition (a further £0.3 million has been paid since the year end) and £2.7 million of share repurchases, net of proceeds on issue of shares.

7.7 Balance sheet
Net assets increased £5.8 million in the year from £98.1 million to £103.9 million, with the main movement being £6.7 million of new intangible assets (primarily goodwill arising on the acquisition of Sanmex).

Liabilities for pensions and other post-employment benefits increased to £9.6 million (net of associated deferred tax asset) (2005: £8.8m). The majority of this liability, £8.6 million (2005: £7.8m), relates to the UK defined benefit pension scheme.

The pre-tax (excluding exceptional items) return on average capital employed reduced from 28.4% to 24.3% reflecting both lower operating profits and the increase in capital employed resulting from the Sanmex acquisition close to the year end.

7.8 Treasury management
7.8.1 Funding
During the year the Group entered into a new £100 million committed multi currency revolving credit facility. This replaced a similar £65 million facility that was due to mature in September 2007. The margin on this facility is 50 basis points, reflecting the improved financial performance of the business in recent years and favourable conditions in the credit markets.

The Group also has access to and renews annually uncommitted short-term money market lines and other borrowing facilities amounting to around £40 million in order to meet short-term requirements to manage working capital.

All borrowings and foreign exchange activities are undertaken with approved financial institutions.

7.8.2 Currency exchange rate exposure
The Group covers trading transactional currency exposure for up to 12 months forward where the exposure is highly probable, through the use of forward currency contracts.

The Group also minimises its currency risk by hedging its net asset currency exposure. The balance sheet is fully hedged with non-sterling net assets matched against non-sterling net liabilities on a currency by currency basis through the use of rolling forward currency contracts.

Just over half of the currency exposures arising from trade transactions were covered at the start of the financial year, and the remainder of the expected exposures was covered shortly after the start of the year.

The Group's net asset exposure was fully hedged at the end of June 2006 so any translational exposures on individual assets or liabilities are matched by offsetting translational exposures on the cover. This cover will be maintained and renewed during the year ending 30 June 2007 and any increase in net asset exposure will be covered out as it arises.

No transactions of a purely speculative nature are undertaken.

7.8.3 Interest rate exposure
Interest rate costless collars were used in the year to 30 June 2005 to hedge overall interest rate exposure, but thereafter the low level of projected debt was insufficient to warrant their employment. If acquisition opportunities result in debt levels increasing then due consideration will be given to using similar instruments again.

7.8.4 Energy and commodity exposure
As many of the Group's products and the containers in which they are sold are derived from oil, and as much of the Group's energy costs are also affected by movements in the price of oil and gas, the Group is investigating whether there could be opportunities to and benefits from arranging cover against exposures of this nature. However, recognising that the exposure is indirect and often significantly diluted by the many activities not affected by the oil price involved in producing the oil derived raw materials that the Group uses, the scope and application of any cover may be limited.

1

7.9 Systems
The Group's primary financial and operating systems are based on SAP which is operated at all operating units. Additional applications creating an increasingly integrated environment have continued to be rolled out. The SAP systems cover most aspects of manufacturing, stock, delivery and financial control and are an integral part of the business. SAP is a key business tool in the Group's continuing focus on asset utilisation and production cost efficiencies.

8 Current trading and outlook

Since the year end, trading has been as expected. Looking ahead, despite higher input costs and investing in the future growth of the business, the Group expects to make progress as we benefit from cost reduction initiatives and the recent acquisitions. Investments in support of our growth agenda will focus on marketing, research and development and certain key management positions. Capital expenditure will be higher in the current year with over 50% directed to cost saving projects and 10% on capacity expansion.

9 Principal risks and uncertainties

Like most businesses, there are a range of risks and uncertainties facing the Group and the matters described below are not intended to be an exhaustive list of all possible risks and uncertainties.

The Group is subject to risk factors both internal and external to its business. External risks include political and economic conditions, competitive developments, supply interruption, regulatory changes, foreign exchange, raw material, packaging and energy prices, pensions funding, environmental risks, strikes and litigation. Internal risks include risks related to capital expenditure, acquisitions, regulatory compliance, human resources and failure of internal controls. The Group's risk management procedures are detailed on page 40.

The focus below is on those specific risks and uncertainties that the Directors believe could have the most significant impact on the Group's business.

9.1 Sustainability of revenue and profits
The Group operates in highly competitive, dynamic markets characterised by increasing customer concentration, growth of discount retailers, numerous Private Label and branded competitors, evolving consumer product preferences and selling price pressures. Failure to counter these external market forces and to manage successfully the Group's operations could adversely affect the Group's revenue and profits. To address this environment, the Group has a strong focus on superior customer service, building and deepening the Group's understanding of the retail market and its customers, new product development and innovation and continuous efficiency improvements.

9.2 Managing procurement costs
McBride is exposed to price and supply fluctuations for its raw materials, packaging and other consumables used in its production processes. Around 60% of its material costs are impacted by the oil price. The Group focuses continuously on mitigating these risks through a programme of initiatives, led by the purchasing function, such as the use of alternative materials and sources and product reformulations. The Group has also recently opened a small sourcing office in Hong Kong to assist in this work. In addition, the Group has a strong focus on improving operating efficiencies through increased asset utilisation and automation, reduced waste and minimising the use of packaging. In periods of abnormally high input price inflation, the Group seeks to adjust the prices it charges customers for its products but if it is unable to do so the Group's business could be adversely affected.

9.3 Operational disruption
Given the short lead times and demanding service levels required by customers, disruption to McBride's manufacturing or distribution facilities (for example, by fire, health and safety failure, problems of supply, information systems (IS) failure, workforce action or environmental incident) could adversely affect the Group's performance. This risk is managed through processes including standard operating procedures, asset maintenance, regulatory compliance, dedicated steering groups, monitoring, audit, consultation, multiple sourcing and disaster recovery plans for manufacturing and distribution facilities.

A failure of the Group's SAP IS platform would rapidly impact all sites; therefore, the Group maintains duplicated facilities, as well as back up and disaster recovery plans. In addition, it invests continuously in its IS infrastructure to support its effectiveness and resilience. Whilst the Group maintains insurance at levels that it believes are appropriate for its industry, some of these operational risks could result in losses and liabilities in excess of its insurance coverage or in uninsured losses and liabilities.

9.4 Product safety and quality
The Household and Personal Care products sectors have various product and ingredient issues relating to concerns voiced over the long-term effects of household chemicals on human health and the environment. McBride has comprehensive management processes in place to ensure that its products are both suitable and safe for their intended use. Additionally, regulatory compliance and product safety issues are actively addressed by industry associations. For example, the HERA (Human and Environmental Risk Assessment) project is a voluntary industry programme of publicly available risk assessments on household cleaning product ingredients (see: www.heraproject.com). As part of McBride's commitment to continuously improve the safety and environmental sustainability of its products and processes, it has a number of programmes, above and beyond regulatory requirements, to systematically remove specific ingredients from product formulas and packaging specifications.

Failures in product quality controls could lead to damage to the reputation of, and trust in, McBride and adversely affect the Group's business. The Group has established product development and quality management processes to minimise the risk of such failures arising, including a dedicated quality assurance function. Product quality controls include the use of in-house toxicologists supported by independent third party specialists. In addition, detailed product recall and crisis management procedures are in place and are regularly reviewed.

2

3

1. Bulk raw materials deliveries feed production demand at Ieper
2. Ieper warehouse for semi bulk raw materials
3. Intermediate storage capacity at Ieper Household

9.5 Environmental and health and safety risks

The Group is committed to making continuing progress in minimising the environmental impact of its operations. This is done in the context of the long established nature of many of our operations and the ongoing impact on the environment inherent in the Group's operations through air emissions, wastewater discharges, the use and handling of hazardous substances and packaging materials, energy consumption and distribution of the Group's products. The Group also seeks to maintain high standards in health and safety for employees and others that interact with the Group's operations. As a minimum it seeks to comply with existing laws, regulations and best practice guidelines governing its environmental and health and safety activities and in many areas the Group's standards exceed minimum compliance requirements.

To support its performance in these areas, the Group maintains appropriate robust performance management systems and key performance indicators. It also has a strong focus on achieving exacting relevant external accreditation for its operations. All of the Group's sites hold the ISO 9000: 2000 environmental management standard (EMS), seven sites hold the more exacting ISO 14001 EMS and two sites have achieved the OHSAS 18001 occupational health and safety standard.

Nevertheless, the Group is exposed to risks of liabilities associated with its environmental and health and safety performance that could adversely affect the Group's business. These risks include liability for contamination caused by current activities as well as divested and past activities, including the cost of required remedial action. They also include the potential cost of complying with additional future regulation, including changes in production practices and the risk of being subject to claims for personal injury as a result of alleged exposure to hazardous materials or other environmental conditions.

Please see Section 10 on corporate social responsibility and the separate Sustainability Report published on the Group's website at www.mcbride.co.uk for more information on the Group's approach to environmental and health and safety matters.

9.6 Management and Board succession

Whilst the Group currently has sufficient personnel of the desired calibre to manage its business, there is a risk that this will not remain the case. In particular, the Group works hard to ensure effective succession planning for senior employees in order to minimise delays in identifying and recruiting necessary replacements of such employees. Any such delays could adversely affect the Group's business. Succession planning for the Directors and senior management is a key issue and as such is considered by the Nomination Committee and the Board.

9.7 Foreign currency

As a proportion of the Group's revenue and operating profits arise in Western Europe, the Group's reported results would be adversely affected by a major weakening of the Euro against sterling. In the medium term this would be mitigated by a consequent reduction in euro-denominated raw material and other input costs purchased by the UK business.

10 Corporate social responsibility (CSR)

10.1 Introduction

McBride takes its corporate responsibilities seriously and the responsible way we do business is firmly embedded in the Group's culture. From our approach to the environment, product safety and health and safety in our operations, to how we treat our people, our customers, our suppliers, our local communities and other key stakeholders, we have a very clear set of principles.

Focus on CSR supports our ultimate aim of long-term sustainable development of the business, recognising this as a goal that unites all our stakeholders' aspirations. This section provides a summary of the Group's approach to CSR and sustainable development. Further details on our approach are set out in McBride's third Sustainability Report, available from the Group's website at www.mcbride.co.uk, that includes detailed information on the activities, data, objectives, compliance status and achievements during the year.

10.2 CSR principles

There are a number of core principles in McBride's CSR policy framework. As a minimum, the Group seeks to comply with existing laws, regulations and best practice guidelines governing its activities in these areas and in many areas our standards exceed minimum compliance requirements. McBride utilises standard and consistent procedures, policies and approaches to CSR across the Group, reflecting where necessary local operating and legislative requirements. Continuous improvement in our policies and their implementation is supported by sharing of experiences, best practice and the consequences of developing legislation across the Group. We have senior management representation on various trade association bodies and we adhere to industry association guidelines. Our corporate social responsibilities apply to every director, manager and employee in all our businesses across our global operations.

The principles governing our activities extend to our supply chain. For example, suppliers are selected not only on the basis of specification, quality, service and economic factors but also on their own commitments to minimise the impact of their operations on the environment and to CSR more generally.

10.3 Management and governance of Group's CSR activities

The Board has overall responsibility for maintaining and enhancing the Group's CSR policies. The Group Chief Executive is accountable for ensuring that the Group operates in accordance with these policies. He delegates operational responsibility for CSR matters to the managing directors of the Group's three divisions and the Group's Human Resources Director, who manages central functions responsible for overseeing health, safety and environmental performance. In addition, there are health, safety and environment managers present at all sites.

To support its performance on CSR matters, the Group maintains appropriate robust performance management systems and key performance indicators that enhance our ability to monitor and improve performance. The Group also has a strong focus on achieving exacting relevant external accreditation for its operations.

1

1. Automated trigger kitchen cleaner production
2. Liquid hand soap bottles ready for packing at the Ieper Personal Care factory
3. Shower gel packed in shelf ready packaging

We regularly consider and take account of the significance of social, environmental and ethical matters and their potential risks to the business of the Group and its stakeholders. Such matters are included in the overall risk and control framework of the business risk review process. This governance framework is supported by circulation of written monthly reports and oral reports given to quarterly review meetings by the Group's three divisions. Detailed reports are then prepared by the three divisions and submitted to the Group's executive directors who report any issues of major significance to the Board.

10.4 Ethical conduct
We expect employees to operate to high ethical standards in all their business dealings and ethical policies and guidelines are in place to ensure that employees behave in an appropriate manner. We are committed to adherence with international human rights standards. We have no involvement in the use of child labour or forced labour in our business and check the status of our overseas suppliers in this respect. We do not tolerate discrimination of any kind. We also comply with applicable national laws and industry standards on working hours. Procedures are in place to prevent unauthorised disclosure of confidential information on the Group to competitors and to prevent any attempt to improperly acquire trade secrets or any other confidential information from competitors.

A whistleblowing procedure provides a vehicle for employees to air concerns about any non-compliance with our policies, procedures or processes or any suspected malpractice.

10.5 Environment
The Group is committed to making continuing progress in minimising the environmental impact of its operations. This is supported by comprehensive internal environmental management systems and the use of key performance indicators and achieving external environmental accreditation for its operations.

All the Group's sites hold the ISO 9000:2000 environmental accreditation and 7 sites hold the more exacting ISO 14001 accreditation (including 3 sites that achieved accreditation for the first time in the year ended 30 June 2006). The Group intends that all its manufacturing sites will achieve ISO 14001 accreditation.

The focus of our commitment to good environmental stewardship is to measure, monitor and manage the key environmental issues relevant to the Group. This is done in the context of the long established nature of many of our operations and the ongoing impact on the environment inherent in the Group's operations through air emissions, wastewater discharges, the use and handling of hazardous substances and packaging materials, energy consumption and distribution of the Group's products.

The biggest environmental impact of the Group is wastewater from our manufacturing processes. None of our sites sends untreated wastewater to the natural environment until it has been treated to make it compatible with its receiving environment. We continued to invest in our wastewater infrastructure in the year including renovation of the sewer system at the Estaimpuis site. We also focus on improving water efficiency across the Group through recycling, installation of semi-closed loops, improved cleaning methods and use of heat exchangers. Water efficiency is monitored based on tonnes of production per cubic metre of water exiting the business. This measure showed a 19% improvement in the year ended 30 June 2006 relative to the prior year. It has shown an improvement of 56% over the last three years.

Energy consumption is managed in the context of changing product mix, overall operating efficiency and the carbon footprint of not just the Group's operations but that of its supply chain. Energy consumption is most significant in the production of the Group's products (particularly products such as laundry detergents) and the containers in which products are stored and sold. In relation to containers, the Group has a strategy of reducing supplies from third parties by investing in its own blow moulding facilities. This brings the benefits of lower costs, greater operating flexibility and elimination of energy consumption in transporting empty containers to production sites. However, the Group's own energy use does rise as a consequence although in reality this is merely a shift of energy consumption from a third party to the Group.

Total Group energy consumption rose 3% in the year ended 30 June 2006 and fell 1% in terms of amount of production per GJ of energy consumed. This was directly influenced by increased own production of containers in the year ended 30 June 2006. The Group is in the process of implementing systems that should enable separate capture of energy consumption data for its core production and blow moulding facilities to enable accurate like for like comparisons of energy consumption. Over the last three years, the Group's total energy consumption has declined by 1% with a corresponding 5% increase in amount of production per GJ of energy consumed.

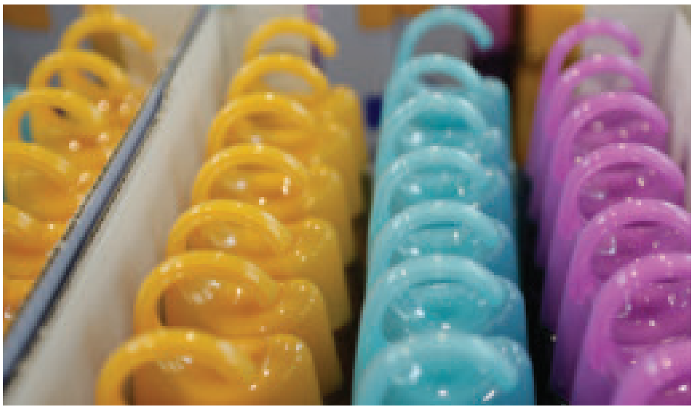
Across the Group, the total amount of waste generated declined by 8% in the year ended 30 June 2006 and has declined by 12% in the last three years. The tonnes of production per tonne of waste increased 10% in the year ended 30 June 2006 and has increased 19% over the last three years.

10.6 Product safety
McBride is committed to understanding safety issues related to its products and for ensuring that they are suitable and safe for their intended use. This is supported by comprehensive management systems that reflect legal and regulatory compliance as a minimum standard and cover raw material use and product assessments, labelling and packaging requirements. McBride contributes to voluntary initiatives on product safety by industry associations such as AISE (The International Association for Soaps, Detergents and Maintenance Products). In 2005, McBride was the second company accepted into AISE's Charter on Sustainable Development.

Human safety and environmental assessments for Household and Personal Care products are carried out under the Dangerous Preparations and Cosmetic Products Directives respectively. It is our policy not to sell products involving risks to human safety and/or the environment under normal and foreseeable conditions of use. All products are assessed before launch for human health and environmental impact.

Recent product safety activities have included ensuring compliance with the Detergent Regulations that came into force in 2005 and assessing potential labelling changes arising from the amended Dangerous Preparations Directive due to come into force in March 2007. We are also involved in assessing the implications of the Global Harmonised System of Classification and Labelling which is currently going through the legislative process. During the year there was no non-compliance with regulations related to customer health and safety and no fines or penalties were incurred.

2



3

10.7 Animal testing

None of our products are tested on animals. We support the development and acceptance of alternative product safety evaluation methods that reduce or replace the use of animals. We do not request animal testing of products or ingredients by suppliers or third parties and we maintain contact with our suppliers to ensure that our values on this subject are shared.

10.8 Health and safety

McBride strives 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 relevant statutory legislation and that all employees participate in the development, promotion and maintenance of a safe and healthy working environment for employees, visitors and the public.

We have comprehensive internal safety management procedures that include maintenance of health and safety policy manuals, verification of regulatory compliance, risk assessment, individual site action plans, safety audits, training, formal incident investigation and provision of occupational health services. There is also a strong focus on the use of key performance indicators, external auditing and achieving exacting external health and safety accreditation for its operations. Internal training is provided to ensure compliance with McBride's standards.

All sites work closely with local enforcing inspectors who make regular visits, not simply to investigate accidents, but also to plan compliance audits and agree priorities. Major exercises are undertaken at our sites, together with local authorities, to test action plans for dealing with site emergencies. Such tests are useful learning exercises for all parties and help to underpin the disaster recovery plans developed for each site.

During the year ended 30 June 2006, independent safety audits of all UK sites and a desktop review of our internal safety procedures produced strong results. The audit recommendations are being implemented as deemed appropriate. Two factories hold the OHSAS 18001 occupational health and safety accreditation.

All accidents and major incidents are reported internally and fully investigated to determine appropriate corrective and preventative measures. Where necessary, accidents are reported to official authorities. Incidents that result in more than three days lost time are monitored. In the year ended 30 June 2006, there were 117 such incidents across the Group, a 26% reduction from the prior year and the lowest level since the year ended 30 June 2003. Incidence rates, relative to hours worked, improved in all three divisions of the Group. The improvement reflects greater focus on accident investigation, health and safety awareness and work on specific skills training, job task analysis and safe working practices.

10.9 Community activities

McBride seeks to play an active role in the local communities in which it operates. As well as providing significant employment opportunities, we aim to make positive contributions to these communities, building goodwill and a reputation as a good neighbour and employer. There is regular dialogue with relevant community groups such as local authorities, educational establishments and charities that enables the discussion and implementation of initiatives of mutual benefit to the relevant stakeholders.

The Group is involved in a wide range of local community activities including factory visits; providing careers advice for students and school children; providing mentoring support to assist ethnic minority students into employment; providing work experience placements; maintaining close relationships with local universities and colleges; providing the McBride Bursary and Scholarship awards to undergraduate students often resulting in recruitment and partnership/development opportunities; giving financial assistance to community efforts; supporting disadvantaged children in the local community and overseas; supporting local charities and promoting the UK government's "Skills for Life" strategy that aims to provide literacy, language and numeracy skills to enable employees to function effectively at work and in society.

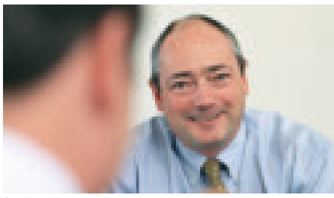
The Board

2

4

6

1



3

5

7

1. **Lord Sheppard of Didgemere, KCVO, Kt**
Chairman (aged 73)
Lord Sheppard has been non-executive Chairman of McBride since 1993 and from 1987 to 1996 was Chairman of Grand Metropolitan plc. He is currently Chairman of Namibian Resources plc, OneClickHr plc and the Unipart Group of Companies and Chancellor of Middlesex University. He is also President of London First and Vice-President of Business in the Community. Lord Sheppard is Chairman of the Nomination sub-committee of the Board.

2. **Miles W Roberts**
Chief Executive (aged 42)
Miles Roberts is Chief Executive of McBride, a role he assumed in July 2005 having originally joined the Company as Group Finance Director in January 2002. His experience prior to McBride includes being Group Finance Director of Costain Group plc and Three Valleys Water plc. Miles is also a non-executive director of Care UK plc, Chairman of its Audit Committee and a member of its Remuneration Committee.

3. **Robert J Beveridge**
Group Finance Director (aged 50)
Bob Beveridge joined McBride in May 2006 as Group Finance Director and Company Secretary. Bob is a Chartered Accountant and was previously Group Finance Director of Marlborough Stirling plc until its acquisition in 2005 by Vertex. Bob's previous experience also includes being Group Finance Director of Cable and Wireless Communications plc and holding senior finance roles over extensive periods at both United Biscuits plc and Mars Inc.

4. **Christine A Bogdanowicz-Bindert**
Independent Non-Executive Director (aged 55)
Christine Bogdanowicz-Bindert has been a non-executive director of McBride since September 2003 and is a member of the Audit, Remuneration and Nomination sub-committees. Christine is an experienced financier, having worked throughout Europe and the US for the last 30 years. This included experience at the International Monetary Fund in Washington DC, Lehman Brothers Inc in New York and Frankfurt and as a non-executive director of various companies in Poland and the US. Christine became a non-executive director of Ford Financial Europe in September 2005 and is also a member of its Audit Committee.

5. **Colin D Smith**
Senior Independent Non-Executive Director (aged 59)
Colin Smith has been a non-executive director of McBride since April 2002. His previous experience includes spending 15 years at Safeway plc, the last 6 years as Chief Executive and, before that, Finance Director. Colin is also Chairman of Assured Food Standards Ltd and Poundland Holdings Ltd. Colin is McBride's Senior Independent Director, Chairman of the Audit Committee and a member of the Remuneration and Nomination sub-committees of the Board.

6. **Robert A Lee**
Independent Non-Executive Director (aged 59)
Bob Lee has been a non-executive director of McBride since September 2003. Bob has over 35 years experience in the petrochemical and allied industries. He was employed by Dow Chemicals for 28 years in various international senior management roles. In 1997, Bob joined the management team that led the demerger of Octel Corp (now Innospec Inc) to become an independent NYSE-listed petroleum additive company. Since 2000, he has been running a private packaging technology company Advanced Plastics Technologies Luxembourg S.A. Bob is a member of the Audit and Nomination sub-committees of the Board and is Chairman of the Remuneration sub-committee.

7. **Henri Talerman**
Non-Executive Director (aged 49)
Henri Talerman has been a non-executive director of McBride since 1993. He is a founding partner of WR Capital Partners, LLC, a private equity investment company engaged in buyouts and MBO's. Until October 2000, he was a Managing Director of Lehman Brothers Inc, managing Lehman's principal investments in Europe and the US. He is a member of several boards of directors of private companies and charitable organisations in the US and Canada.

Directors' report

Principal activity
The Group's principal activity is the production, distribution and sale of Private Label Household and Personal Care products to leading retailers across the UK and Continental Europe. In the view of the Board, the Group's likely future development will continue to focus on the current core business and on the main product categories in which we currently operate.

Business review
The Group is required to produce a business review complying with the requirements of section 234ZZB of the Companies Act. The Group has complied with this requirement in the Business Review, which is presented on pages 20 to 33. This incorporates a detailed review of the Group's activities, its business performance and developments during the year and an indication of likely future developments.

Group results and dividends
The consolidated financial statements included in this Annual Report are the first to be reported under International Financial Reporting Standards, as adopted for use in the European Union ('Adopted IFRS'). Details of the effects of adopting IFRS are given in the Accounting Policies in note 1 on page 53 and in note 28 to the consolidated financial statements. The financial statements of the Company continue to be prepared in accordance with UK Generally Accepted Accounting Practice.

The results for the year are set out in the consolidated income statement on page 49 and a discussion of the Group's financial performance and progress are set out in the Business Review on pages 20 to 33. A summary of the results for the year together with financial key performance indicators discussed in the Business Review on pages 20 to 21, is set out below.

Figures in £m unless otherwise stated	**2006**	2005
Revenue	**540.1**	537.1
Underlying revenue(1)(2)	**538.5**	541.8
Operating profit	**27.2**	32.0
Operating profit before exceptional items	**31.0**	35.0
Earnings per share	**10.3p**	12.0p
Earnings per share before exceptional items	**11.7p**	13.2p
Dividend per share	**5.1p**	4.8p
Return on capital employed(1)(3)	**24.3%**	28.4%

Notes
(1) Indicates Group key performance indicator.
(2) Underlying revenue is reported revenue adjusted to exclude £1.6m of revenue attributable to the acquisition of Sanmex International in 2006 and to include the additional £4.7m of revenue that would have been generated if APL had been part of the Group for the whole of the year ended 30 June 2005.
(3) Return on capital employed is operating profit, before exceptional items, divided by average of opening and closing capital employed (capital employed being net assets excluding net debt).

The directors recommend that a final dividend of 3.5 pence (2005: 3.3 pence) per ordinary share be paid on 24 November 2006 to shareholders on the register at the close of business on 27 October 2006. Combined with the interim dividend for the year already paid, total dividends for the year are 5.1 pence (2005: 4.8 pence) per ordinary share, an increase of 6%. Further details of dividends are shown in note 9 to the consolidated financial statements on page 59.

Directors
The directors who held office during the year were:

Lord Sheppard	– Non-executive Chairman
Mr M Handley	– Chief Executive and Deputy Chairman (until 12 July 2005)
Mr M W Roberts	– Group Finance Director (until 12 July 2005) and Chief Executive (from 12 July 2005)
Mr R J Beveridge	– Group Finance Director (from 10 May 2006)
Mrs C A Bogdanowicz-Bindert	– Independent non-executive director
Mr R A Lee	– Independent non-executive director
Mr C D Smith	– Senior Independent non-executive director
Mr H Talerman	– Non-executive director

Biographical details of the directors holding office at the date of this report appear on page 34.

Information on directors' remuneration and service contracts is given in the Remuneration Report on pages 43 to 47.

Directors and their interests
The beneficial interests of the directors (none of the directors had any non-beneficial interests during the year) in the share capital of the Company (in terms of shares, options and conditional share awards) at 1 July 2005 and 30 June 2006 were:

	At 30 June 2006(1)			At 1 July 2005(2)		
Director	Shares	Options(3)	Conditional share awards(4)	Shares	Options(3)	Conditional share awards(4)
Lord Sheppard	2,100,000	–	–	2,100,000	–	–
Mr M W Roberts	2,000	509,615	152,769	2,000	509,615	–
Mr R J Beveridge	–	–	–	–	–	–
Mr M Handley	1,602,848	1,020,833	–	1,602,848	1,350,577	–
Mrs C A Bogdanowicz-Bindert(5)	10,000	–	–	5,000	–	–
Mr R A Lee	5,000	–	–	5,000	–	–
Mr C D Smith	100,000	–	–	100,000	–	–
Mr H Talerman	2,500	–	–	2,500	–	–

Notes
(1) At the date of resignation for Mike Handley.
(2) At the date of appointment for Bob Beveridge.
(3) The options include those held under the 1995 International Executive Share Option Scheme (Unapproved) and the 2002 Unapproved Discretionary Share Option Scheme.
(4) The conditional share awards are awards made under the McBride Long-Term Incentive Plan.
(5) During the year, Christine Bogdanowicz-Bindert acquired 5,000 ordinary shares in the Company.

There were no changes in the directors' interests in the shares of the Company from those detailed above between 30 June 2006 and 6 September 2006. None of the directors had any interest in the shares of any subsidiary company. Further details of options and conditional share awards held by the directors are set out in the Remuneration Report on pages 43 to 47.

Directors' report
continued

Re-election of directors
Details of all directors offering themselves for election or re-election can be found in the report on Corporate Governance on page 38.

Transactions with directors
Except for service contracts there were no contracts of significance with the Company, or any subsidiary undertaking, subsisting during or at the end of the periods in which any director is or was materially interested.

Indemnification of directors
In accordance with its Articles of Association, the Company has the power (at its discretion) to grant an indemnity to the directors in respect of liabilities incurred as a result of their office. In respect of those liabilities for which directors may not be indemnified, the Company purchased and maintained a directors' and officers' liability insurance policy throughout the period.

Neither the Company's indemnity nor insurance provides cover in the event that the director is proved to have acted fraudulently or dishonestly. No claims have been made either under the indemnity or the insurance policy.

Employment policies/employees
Involvement of employees

We recognise our employees as a valuable asset and we focus on helping employees to achieve their full career potential through the provision of training and development opportunities. Our appraisal system is extended to all employees and helps to ensure that individuals' needs are continually assessed. We acknowledge that team working is invaluable in helping to deliver our goals and this is actively encouraged through cross-fertilisation of ideas both across functions and across territories so that best practice is shared at every opportunity. We have wide ranging employee policies in place to help provide guidance and to set the standards expected of our employees in all their business dealings. These policies are made available to employees on a regular basis.

We are committed to employee consultation by way of regular briefings, listening groups, information bulletins and Company newsletters. Members of the senior management teams continue to visit the sites regularly and, from time to time, participate in "Back to the Floor" initiatives and attend "Q&A" sessions at our management development programmes. These exercises provide the opportunity for open questioning from employees and encourage two-way dialogue. Most sites are actively engaged in involvement initiatives to allow all employees to understand and relate to our business goals and many sites hold open days to allow employees' families to see the environment in which their family members work.

Reward and recognition

Eligible employees are encouraged to become shareholders through participation in the McBride Savings-Related Share Option Scheme. Some employees participate in performance-related bonus schemes and some senior management are eligible to participate in share-based option schemes and the LTIP scheme. Local incentive schemes relating to site performance are available to all site based employees.

We respect the right of employees to join trade unions and appropriate representative bodies where they choose to do so. We have in place formal arrangements with recognised national unions where this is deemed appropriate and Partnerships or Works Councils (joint management/employee consultation groups) operate at all UK and Western Continental Europe facilities. Where these arrangements include nomination of employee representatives, they are not discriminated against and they are allowed reasonable time and facilities to carry out their representative duties.

Equal opportunities

It is our policy to ensure equal opportunity in recruitment, selection, promotion, employee development, training and reward policies and an updated policy on Equal Opportunities and Diversity has been published during the year. We place great emphasis on establishing and maintaining a safe working environment for our employees and it is a key objective to ensure that successful candidates for appointment and promotion are selected taking account of individual ability, skills and competencies without regard to age, gender, race, religion, disability or sexual orientation. If employees become disabled during the course of their employment, they will continue to be employed, wherever practicable, in the same job, or if this is not practicable, every effort is made to find and provide appropriate retraining and redeployment. Full and fair consideration is given to the employment and to providing opportunities for training and development of people with disabilities according to their skills and capabilities. If an employee is injured during the course of his employment, the incident is thoroughly investigated and, where appropriate, rehabilitation support is provided to help the employee to return to work as soon as possible. Wherever a restructuring programme is undertaken, great care is taken to ensure that all relevant communications, consultations and support and guidance is provided and every effort is taken to ensure that compulsory redundancies are minimised.

Charitable and political donations
The Group made donations to charities of £30,000 (2005: £29,000) during the year. It is the Group's policy not to make political donations and, accordingly, there were no payments to political organisations during the year (2005: £nil).

Environment
The Group recognises the importance of responsible environmental management and its obligations to protect the environment. The Group therefore gives high priority to all environmental matters relevant to its business. Further information appears in the Corporate Social Responsibility section of the Business Review and in the separate Sustainability Report available from the Group's website at www.mcbride.co.uk.

Supplier payment policy and practice
Group companies do not comply with any payment code but agree terms and conditions under which business transactions with their suppliers are conducted. Payments are then made in accordance with those terms, provided that suppliers also comply with all relevant terms and conditions. At 30 June 2006, the amount the Group owed its suppliers represented 88 days' purchases (2005: 87 days). The Company is a holding company and therefore does not have any trade creditors.

Share repurchases
At the 2005 Annual General Meeting, shareholder approval was granted to allow the Company to repurchase up to 17,814,000 ordinary shares. 1,600,000 shares were repurchased (£160,000 nominal value) during the financial year for a consideration of £2,542,500 of which 950,000 were held as Treasury shares. The existing authority will expire on the date of the next Annual General Meeting when the directors will be seeking authority from shareholders to buy back shares which will be cancelled or may be held as Treasury shares for the purpose of meeting obligations under employee share schemes.

At the beginning of the year, the Company held 1,525,000 ordinary shares as Treasury Shares. During the year, 1,452,148 shares were transferred out of Treasury into the McBride 1995 Savings Related Share Option Scheme. At the end of the year, 1,022,852 shares remained held in Treasury.

Financial instruments
Information on the Group's financial risk management objectives, policies and activities and on the exposure of the Group to relevant risks in respect of financial instruments is set out in section 7.8 on page 29 and in note 21 to the consolidated financial statements on page 62.

Substantial shareholdings

On 6 September 2006 (being the latest practical date prior to the date of this report), the Company had been notified of the following interests amounting to 3% or more of its issued share capital.

Shareholder	Number of shares	%
Invesco Asset Management	33,620,327	19.0
Allianz Lebensverischerungs AG	16,734,845	9.5
Aberdeen Asset Management	9,787,632	5.5
Arnhold & S Bleichroeder Advisers	8,951,022	5.1
Hermes Pensions Management	6,788,878	3.8
Legal & General Investment Management	6,445,383	3.6
J O Hambro Capital Management	6,227,348	3.5
AXA Investment Managers	5,888,096	3.3
Scottish Widows Investment Partnership	5,430,467	3.1
AXA Rosenberg Investment Management	5,372,331	3.0

Statement of directors' responsibilities

The directors are responsible for preparing the Annual report and the Group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards.

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

After making appropriate enquiries, including a review of budgets and available facilities, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' statement regarding disclosure of information to auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditor is unaware. Each director has taken all the steps he or she ought to have taken as a director to make himself or herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

Subsequent event

On 19 July 2006 the Group agreed to purchase the household liquids business of Coventry Chemicals Limited for £1.6 million plus inventory. The production of the acquired business will be transferred into the Group's existing facilities.

Annual General Meeting

The notice convening the Company's 2006 Annual General Meeting at Butcher's Hall, Bartholomew Close, London EC1A 7EB on 31 October 2006 at 3.30pm is set out in the separate document issued to shareholders with this report.

Copies of the annual report and accounts for the year ended 30 June 2006 can be obtained free of charge from the Company's registered office or downloaded from the Group's website at www.mcbride.co.uk.

Auditors

On the recommendation of the Audit Committee, resolutions are to be proposed at the Annual General Meeting for the reappointment of KPMG Audit Plc as auditors of the Company and to authorise the Board to fix their remuneration. The remuneration of the auditors for the year ended 30 June 2006 is fully disclosed in note 7 to the consolidated financial statements on page 57.

By order of the Board

Mr R J Beveridge
Secretary
6 September 2006

Corporate governance

Compliance

The McBride Board is accountable to shareholders for the Group's activities and is responsible for the effectiveness of corporate governance practices. We endorse the provisions set out in The Combined Code Principles of Good Governance and Code of Best Practice ("The Code"), as issued in July 2003. We have continued to assess our level of compliance with The Code and disclosures in this year's report describe how the principles are applied. During the year, we have made further steps towards ensuring full compliance with The Code with the introduction of a Board Performance Evaluation and with a review of the composition of the Remuneration and Nomination sub-committees of the Board. The Board believes that the Company complies with the provisions of Section 1 of The Code.

Composition and independence of the Board

At the end of the year to 30 June 2006, the Board comprised seven directors. There were two executive directors, the Chairman and four non-executive directors. Following Mike Handley's resignation as Chief Executive on 12 July 2005, Miles Roberts was appointed in his place and, following an extensive and rigorous nomination process, Bob Beveridge was appointed as Group Finance Director on 10 May 2006.

The directors' biographies appear on page 34 and illustrate the range of experience which ensures an effective Board to lead and control the Group. The executive and non-executive directors have a complementary range of financial, operational and entrepreneurial experience which ensures that no single director is dominant in the decision making process.

We consider all our non-executive directors to be independent in character and judgement; none of the non-executive directors have any relationships or circumstances which could affect their judgement. The Chairman and Henri Talerman have served on the Board since 1993. The Board recognises and understands investor concerns over longer serving non-executive directors and has specifically considered this matter during the year. It is the Board's opinion that they both continue to operate in an independent manner. Neither has received any form of performance-related pay or share options and they do not have any relationships which could adversely affect their independence. Furthermore, their considerable experience and particular areas of knowledge and expertise continue to add value to the deliberations of the Board. Notwithstanding these considerations, both have resigned their positions on Board committees to the extent that independence is recommended by The Code.

The role of Senior Independent Non-Executive Director continues to be held by Colin Smith.

The size of the Board allows individuals to communicate openly and freely and to make a personal contribution through the exercise of their individual skills and experience. The high level of non-executive representation provides for healthy independent challenge to the executive directors and management. The Board's strong non-executive element continues to be based on each non-executive director being independent of management. Between them, the non-executive directors bring a broad range of relevant experience, independent judgement and individual contribution to the deliberations of the Board and their wide ranging experience and backgrounds ensure that they can debate and constructively challenge management in relation to both the development of strategy and performance against the objectives set out by the Board. The non-executive directors have been appointed for their specific areas of expertise and knowledge, which bring complementary skills to the Board.

In line with The Code, the Company's Articles of Association require all directors to submit themselves for re-election at every third annual general meeting. However, all the non-executive directors and the Chairman have agreed to submit themselves for annual re-election to allow shareholders to have a regular opportunity to reassess the composition of the Board. This also recognises the provisions of The Code in seeking annual re-election of any non-executive directors who have served more than nine years on the Board.

Lord Sheppard, Christine Bogdanowicz-Bindert, Bob Lee, Colin Smith and Henri Talerman shall therefore retire at the Annual General Meeting and, being eligible, offer themselves for re-election. New directors are subject to election at the first opportunity following their appointment. Following his recent appointment, Bob Beveridge will stand for election at this year's Annual General Meeting, and Miles Roberts, being subject to rotation in accordance with the Company's Articles of Association, will also seek re-election.

We should advise that Lord Sheppard has expressed his wish to retire once a successor has been appointed. The Nomination Committee will initiate an appropriate process in the near future to identify a suitable candidate to recommend to the Board. This will include the preparation of a job specification together with an assessment of the time commitment expected in the role. Independent external consultants will be used.

Operation of the Board

The Board hold scheduled meetings six times a year at about two-monthly intervals and further meetings are held as necessary to consider specific matters where a decision is required before the next meeting.

Attendance at meetings of the Board and at meetings of sub-committees is set out in the table on page 39. Several non-executive director meetings have been held during the year without the executive directors present. The senior independent director and the non-executive directors have also met without the presence of the Chairman to consider his re-election to the Board.

There is a clear division of responsibilities between the non-executive Chairman and the Chief Executive. The Chairman, supported by the Secretariat, leads the Board through governance matters, ensures that the meetings of the Board and shareholders are properly conducted and is responsible for setting the Board agenda. The Chief Executive has day-to-day responsibility for all business of the Group and carries out the agreed strategy and policies of the Board. All directors have access to the Company Secretary who is responsible for ensuring that Board procedures are followed and that the Company complies with all applicable rules, regulations and obligations governing the Company's operations.

A strong feature of the Board's effectiveness is an open style of management and a free flow of information between the executives and non-executives. This is encouraged by the non-executive Chairman and supported by the Chief Executive. All directors communicate with each other on a regular basis and contact with senior management within the Company is encouraged. In this regard, senior executives are frequently invited to attend Board meetings to make presentations on specific matters and this serves to facilitate a clearer understanding of business issues. 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 are able to take independent professional advice if necessary at the Company's expense.

The Board has a schedule of matters reserved for its consideration, including overall strategy, the approval of major capital expenditure and acquisitions, ensuring that there are proper internal controls, the approval of financial arrangements, and the monitoring of performance, health, safety and environmental matters and risk management procedures.

All directors undertake training relevant to their duties. Following his appointment as Chief Executive, Miles Roberts has received specialist training in the area of organisational development. Bob Beveridge received a formal induction on joining the Board which included site and operational presentations by senior executives. Colin Smith regularly attends meetings of the KPMG Audit Committee Institute and Bob Lee has attended several meetings for Remuneration Committee chairmen hosted by Watson Wyatt. Ongoing training is provided in the form of regular briefing papers which are submitted to Board members on regulatory/legislative developments on topics of specific relevance to them.

Board performance evaluation

This year the Board has introduced a formal board evaluation process to assess the overall performance of the Board and the contribution made by individual directors. The exercise was devised internally. It was undertaken in an open manner with responses from Board members to detailed questionnaires being analysed and the output summarised for the Board. An analysis of the output and the resulting discussion concluded that the functioning of the Board is largely satisfactory with an open and constructive discussion of issues. The evaluation found that the wide range of skills and experience of the existing directors provides a sound base for the operation of an effective board and that each director makes an effective contribution to the workings of the Board. The output from the exercise was also taken into account when considering whether to put forward each director for re-election at this year's Annual General Meeting. We are of the view that the Board is best placed to carry out such evaluations without the need to employ the services of an outside agency as this is an appropriate and cost effective procedure. An action plan is being developed to further improve Board performance.

Operational management of the Group

The management of the Group's business activities is delegated to the Chief Executive. Local operational, commercial, supply chain, finance, development and technical issues are delegated to senior executive management on a structured basis and the Chief Executive is responsible for establishing objectives and monitoring executive actions and performance. Employee and social and community responsibilities are delegated to the most senior human resources executive in the Group who reports directly to the Chief Executive who holds ultimate responsibility. The relationship between the Board and the Chief Executive is governed by the non-executive directors, particularly through the work of the Board committees.

There are three principal operating divisions, UK, Western Continental Europe and Eastern Continental Europe, each of which is headed by a managing director who is responsible for the operational management of the division. The Chief Executive and Finance Director each attend a monthly trading meeting with the management team of each division in which they review all significant operational issues, including customer service, trading performance, forecasts, working capital, people development, capital investment proposals, health and safety and environmental issues. Reports on progress are tabled at each Board meeting.

The Chief Executive chairs a monthly meeting of the Group Management Team whose role is to consider commercial, financial and operational matters across the Group and to ensure transfer of knowledge and best practice. This team meets twelve times per annum and is chaired by the Chief Executive. The other members of the team are the Finance Director, the Managing Directors of the three divisions, the Director of Planning, the Director of Purchasing and the Human Resources Director. Other members of the senior management teams are invited to attend as may be deemed appropriate.

Sub-committees of the Board have been established with Charters which detail their composition, activities and duties. They also define the extent of the authority delegated to each sub-committee. The Charters, including the composition of the sub-committees, are frequently reviewed and updated as necessary to ensure ongoing compliance with the provisions of The Code and other guidelines. Copies of the Charter terms of reference, activities, roles and responsibilities of the Board committees are available from the Group's website at www.mcbride.co.uk.

These sub-committees are properly authorised under the constitution of the Company to take decisions and act on behalf of the Board within the guidelines and delegations laid down by the Board. The Board is kept fully informed of the work of these committees with reports being tabled from time to time by the relevant sub-committee chairmen.

Audit Committee

The Audit Committee comprises the three independent non-executive directors and is chaired by Colin Smith who has relevant financial experience and up to date knowledge of financial matters. In line with The Code, the Committee monitors the integrity of the financial statements of the Company, reviews accounting policies and disclosure practices and reviews the internal control and risk management systems. It also reviews the cost effectiveness, independence, objectivity and effectiveness of the audit process and makes recommendations to the Board in relation to the appointment and remuneration of the external auditor. The Committee members normally serve for a period of not less than three years and a quorum of the Committee is two members. There are a minimum of three meetings per annum.

The report of the Audit Committee is set out on page 41.

Remuneration Committee

The Remuneration Committee comprises the three independent non-executive directors and is chaired by Bob Lee. It reviews the overall remuneration policy and makes recommendations to the Board on remuneration for the executive directors and key senior executives. It also reviews the Company's management development plans. The Chief Executive is invited to attend the Committee meetings on all matters except those relating to his own remuneration. The composition of the Committee has been revised to reflect the provisions of The Code with Henri Talerman relinquishing both his chairmanship and membership of the Committee with effect from 1 August 2005. The Committee does not formally retain remuneration consultants but takes professional advice from external advisers as and when required.

The Committee meets at the request of any member but at least once in each financial year and a quorum is three members. The members of the Committee have no personal financial interest, other than as shareholders, in the Committee's decisions. They have no conflicts of interest arising from cross directorships with the executive directors nor from being involved in the day-to-day business of the Company.

The report of the Remuneration Committee is set out on pages 43 to 47.

Nomination Committee

The Nomination Committee is chaired by Lord Sheppard and in addition comprises the other non-executive directors. It is responsible for reviewing the structure, size and composition of the Board as well as considering and recommending the nomination of candidates for appointment as executive or non-executive directors to the Board. Members of the Committee are not involved in matters affecting their own positions. The Committee is also responsible for making recommendations to the Board on the continuation in service of any director who has reached the age of 70. In this regard, the appointment of Lord Sheppard has been considered by the remaining members of the Committee who have recommended his re-election to the Board subject to approval by shareholders at the Annual General Meeting.

The membership of the Committee was revised from 12 July 2005 when the Chief Executive stepped down from the Committee to provide a majority of independent non-executive directors and to comply fully with The Code. The Committee meets as appropriate and a quorum is three members, at least two of whom shall be independent non-executive directors.

The report of the Nomination Committee is set out on page 42.

Attendance at meetings

During the year ended 30 June 2006, there were eight formal board meetings, four Audit Committee meetings and seven Remuneration Committee meetings. Attendance at these meetings by individual directors is given in the table below:

Number of meetings attended	Board	Audit	Remuneration	Nomination(1)
Lord Sheppard(2)	5/8	n/a	n/a	–
Mr M W Roberts	8/8	n/a	n/a	n/a
Mr R J Beveridge(3)	1/1	n/a	n/a	n/a
Mrs C A Bogdanowicz-Bindert	8/8	4/4	7/7	–
Mr R A Lee	8/8	4/4	7/7	–
Mr C D Smith	8/8	4/4	7/7	–
Mr H Talerman(4)	8/8	n/a	1/1	–

"n/a" indicates the director is not a member of the Committee.

Notes
(1) Miles Roberts' appointment was made by the Board which, by virtue of its constitution at the time, effectively comprised all the members of the Nomination Committee. Bob Beveridge's appointment was conducted as described in the Nomination Committee report with all members being fully consulted at all times.
(2) Lord Sheppard missed three Board meetings due to illness but since his return has been in full attendance.
(3) Bob Beveridge was appointed to the Board on 10 May 2006.
(4) Henri Talerman stepped down from the Remuneration Committee on 1 August 2005.

Directors do not participate in meetings when matters relating to them are being discussed.

Corporate governance
continued

Relations with shareholders

The Board places considerable importance on the maintenance of effective, balanced communications with all shareholders. Meetings with analysts and institutional shareholders are held regularly at the time of the Interim and Final results. These provide the opportunity for shareholders to assess the Company's performance and prospects and to explore the Company's approach to corporate governance matters. The executive directors regularly meet face to face with analysts, brokers and fund managers.

The Board is kept informed of investors' views through distribution and regular discussion of analysts' and brokers' briefings. During the year the Company's brokers also made a presentation to the Board on the current market views on the Company.

The Chairman and the Senior Independent Non-Executive Director are available to discuss governance and strategy with major shareholders should such a request be made. During the year, Colin Smith as the Senior Independent Non-Executive Director, attended meetings with a number of major shareholders on a variety of matters. Both the Chairman and the Senior Independent Non-Executive Director are prepared to contact individual shareholders should any specific areas of concern or enquiry be raised.

All members of the Board are present at the Annual General Meeting to respond face-to-face to queries posed by individual shareholders or their representatives. At each Annual General Meeting the Chairman reports, after each show of hands, details of all proxy votes lodged for and against each resolution, and the number of abstentions. The Chairman also provides an update on current trading conditions.

Where applicable, non-executive directors will proactively seek the views of major shareholders on certain issues. During the year, Bob Lee met shareholders to seek views on the introduction of a Long-Term Incentive Plan for senior executives. We respond throughout the year to correspondence received from individual shareholders on a wide range of issues and we also participate in a number of surveys and questionnaires submitted by a variety of institutional/ representative bodies.

Internal control and risk management

The internal control system, which accords with the Turnbull Guidance, embraces all business risks, including financial, operational and strategic risks, and incorporates a full review of compliance controls and risk management across the Group. This system is operated as an integral part of the organisation of executive responsibilities and accountabilities and has been reviewed by the Board.

The Board has ultimate responsibility for the Group's system of internal control and for reviewing its effectiveness. It is designed to manage rather than eliminate the risk of failure to achieve the business objectives and to provide reasonable, but not absolute, assurance that assets are safeguarded against unauthorised use or material loss and that transactions are properly authorised and recorded.

Last year the Company established a self-audit programme which ensures that the assessment of business risks is incorporated as part of the general business processes and ensures that risks are reviewed on a regular basis. Risks are assessed in terms of their potential impact on the business, and mitigating controls and actions are reviewed by the Audit Committee at least twice a year. Following the appointment of the new Group Finance Director, a proposal regarding the need or not to establish an internal audit function will be submitted for full consideration by the Audit Committee.

The executive directors are responsible for implementing the risk management strategy and for ensuring its effective operation. Accountability for managing operational risks is delegated to the divisional management teams who review and assess risk management matters as part of their business processes and risks, controls and actions are regularly adjusted in response to the changing market environment. Emergency response plans, crisis management plans and operational disaster recovery plans are in place with the objective of minimising the adverse consequences of a serious incident and to ensure that any control failures are suitably escalated to senior management and the Board as necessary. Such procedures are updated regularly and are made available to all senior managers. Progress is overseen by the Audit Committee with an annualised consolidated review of the risk profile of the Group being undertaken to identify any major risk exposures and to consider any appropriate mitigating actions. A whistleblowing policy is in place for individuals to report suspected breaches of law or regulations or other improprieties.

The main features of the internal control policy are:

- The Group organisation has a decentralised structure with well defined management responsibility and reporting lines. The Chief Executive and Finance Director meet monthly with the divisional senior management teams to formally review progress on financial, commercial, operational, supply chain, personnel, health, safety and environmental as well as regulatory and legal compliance matters.
- There is a comprehensive annual budgeting system with ultimate approval by the Board. Financial performance of the subsidiaries is monitored closely and updated forecasts are prepared and challenged on a regular basis.
- A formal process exists for ensuring that key risks affecting all the Group's operations are identified and assessed on a regular basis, together with the controls in place to mitigate these risks.
- Benchmarking and the sharing of best practice is used widely across the Group and across functions. This includes Operational Performance Review meetings to compare and contrast site performance in terms of production and labour efficiencies, waste levels and capacity availability and utilisation. Technical meetings, commercial and new product development forums, finance meetings and monthly trading review meetings are also well established.
- Cash flow management. Bank balances are reviewed on a daily basis, cash flows are compared to budget on a monthly basis, working capital balances are analysed in detail and in all cases significant variances are investigated thoroughly.
- Working with external advisers, benchmarking is used to compare independent assessments of fire protection risks, management and housekeeping controls and health, safety and environmental policies, procedures and documentation.
- There are well-defined policies relating to personnel issues and subsidiaries report regularly on health, safety and environmental matters. The Board regularly reviews overall performance.
- Authorisation and control procedures are in place for expenditure on capital projects. Those for operating costs and contractual commitments have been reviewed.
- The Company's finance manual defines accounting policies and controls to be followed by all Group companies. An internal control questionnaire has been signed during the year by the divisional managing directors and finance directors, confirming their compliance with the finance manual and providing assurance that controls were properly followed in the areas of fixed assets, billing and receivables, inventories, purchases, bank accounts and computer systems. The Group Finance Director interviewed respondents to ensure that the responses were appropriate.
- The activity of reviewing the Risks, Controls and Actions drawn from detailed Business Risk Registers compiled by an independent auditor has been absorbed as an integral part of business operational management.

We confirm that we have reviewed the systems of internal controls during the year and are satisfied that there is an ongoing process for identifying, evaluating and managing risks faced by the Company. This process has been in place for the year under review and has remained in place up to the date of approval of the Directors' Report. All risks are regularly reviewed and the key corporate risks are referred to in the Business Review section of this report. We have concluded that the key business risks of McBride are well controlled, and that most of the remedial actions have only moderate resource and cost implications.

Audit committee report

Report of the Audit Committee

The role of the Audit Committee is to assist the Board in fulfilling its responsibilities regarding the integrity of the Company's financial statements, reviewing risk management and internal control, monitoring compliance with legal and regulatory requirements, the performance, independence, appointment, re-appointment and remuneration of external auditors, and reviewing the Company's financial reporting standards.

Composition of the Audit Committee

The composition of the Committee fully reflects the provisions of The Code. The Chairman is Colin Smith and the other members comprise the other independent non-executive directors, Bob Lee and Christine Bogdanowicz-Bindert. The Board is satisfied that the Committee members are sufficiently competent in financial matters. Mr Smith is a Fellow of the Institute of Chartered Accountants and has relevant financial experience and up to date knowledge of financial matters.

The Committee's terms or reference were reviewed during the year and appropriate amendments were incorporated to reflect the provisions of The Companies (Audit, Investigations and Community Enterprise) Act 2004. The Committee's Charter is available from the Group's website at www.mcbride.co.uk.

The Committee met four times during the financial year ended 30 June 2006 in September 2005, October 2005, February 2006 and May 2006. Subsequent to the year-end, a further meeting took place to consider the outcome of the annual audit for the year ended 30 June 2006. Attendance at meetings by individual members of the Committee is shown in the table on page 39.

Principal activities

During the year, the principal activities of the Committee were as follows:

Financial statements

The Committee received regular reports on the Group's trading performance and considered reports from the external auditors and the Group Financial Controller on both the interim and full year financial statements. Any critical reporting issues were discussed and the going concern assumptions and the Group's compliance with accounting standards and with stock exchange and legal requirements were considered.

The Committee received regular reports on audit-related and major taxation projects as well as reports on progress towards the implementation of the new international financial reporting standards.

Accounting policies

The Committee received regular updates on technical reporting issues and on critical accounting policies. It reviewed the Group's finance policies and procedures and considered any new or proposed changes in accounting policies or regulatory requirements.

External auditors

The Committee received reports from the external auditors including proposals on the audit strategy for the year and reviews on the scope and outcome of the interim and year-end audits and on control and accounting developments.

Recognising the ICAEW guidelines, a new audit partner had been appointed at the beginning of the year ended 30 June 2005. The Committee evaluated the performance of the external auditors during the year concluding that this was satisfactory. A proposal on whether to tender the audit firm work will be developed during the year ending 30 June 2007 by the new Group Finance Director for consideration by the Committee.

The Committee monitored the external audit firm's compliance with applicable ethical guidance and, in addition, considered the independence and the objectivity of the external auditors taking due account of all appropriate guidelines. This included a specific review of the audit firm's own policies, procedures and standards which are in place to assure the Company of its independence, and the fees paid to the auditors and other service providers, for non-audit services were analysed.

The Committee considered and approved the external auditor's fees for the year ended 30 June 2006 and also reviewed the accounting principles, policies and financial disclosures made by the Group.

Independent meetings were held between the Sub-Committee members and the external auditors in the absence of the executive directors and between the Chairman of the Committee and the external auditors.

The Committee has recommended to the Board the re-appointment of KPMG Audit Plc for the year ending 30 June 2007.

Risk management and internal control

The Committee received reports relating to the Company's approach to internal control and risk management activities. A self-audit programme continued to operate during the year. This exercise is based on regular reviews of detailed Business Risk Registers, assesses the adequacy of the control mechanisms in place to mitigate any risks and identifies any relevant action points necessary to further protect the Company's position. The Committee has reviewed progress during the year and has concluded that the self-audit programme has been effective with regular reviews of any risk areas taking place and with reports being tabled on any changes, controls and mitigating actions. More information is reported on page 40.

Internal audit

At the request of the Audit Committee, an assessment of the need, or otherwise, for an internal audit function is being undertaken by the new Group Finance Director. In the meantime, the Committee is satisfied that the internal processes and controls currently in place are adequate.

Policies

The Committee reviewed the Company's corporate policies on social and ethical matters, whistleblowing and the provision of non-audit services. It concluded that all appropriate key policies are in place to ensure that such reasonable steps have been taken to prevent fraud and to allow any possible improprieties to be reported. Reports on the Group's treasury policy, banking facilities and on IT system developments were reviewed by the Board as a whole.

Non-audit fees

During the year, £0.4 million was paid to KPMG Audit Plc in respect of audit services for the Group. In addition, £0.2 million was paid to the Group's auditors for services where they were best placed to undertake the work due to their knowledge of the business or as a by-product of the audit function. This was mostly tax-related and due diligence work which represented 77% of the total non-audit fee. In accordance with Company policy, other providers are considered for non-audit work and assessed on the basis of service and cost. Work was awarded during the year to three other external advisers for work on other due diligence work, IFRS support and transfer pricing tax work. We have in place a non-audit policy which has been designed to preserve the independence of the auditors in performing the statutory audit and aims to avoid any conflict of interest by specifying the type of non-audit work for which the auditors can be engaged without referral to the Audit Committee, for which a case-by-case decision is necessary, and from which they are excluded.

Nomination committee report

The role of the Nomination Committee is to assist the Board in reviewing the structure, size and composition of the Board and its sub committees, to identify and nominate candidates to fill Board vacancies, to formulate succession plans for executive and non-executive directors, and to recommend the election or re-election of directors to the Board.

The Committee's terms of reference were reviewed during the year. It was concluded that the Charter complies with all relevant guidelines and operates satisfactorily and no changes were proposed. The Committee's Charter is available from the Group's website at www.mcbride.co.uk.

The Committee's Chairman is Lord Sheppard and the other members comprise all the non-executive directors, Christine Bogdanowicz-Bindert, Bob Lee, Colin Smith and Henri Talerman.

Members of the Committee maintained regular contact during the course of the year. Following the resignation of Mike Handley in July 2005, the Committee considered succession and concluded that Miles Roberts had the necessary skills, knowledge and ambition to fulfil the role. This decision was entirely consistent with the Committee's succession plan for this position.

Having given due consideration to both the balance of the Board and to the skill profile required, the Committee recommended to the Board that an external recruitment should be carried out for a new Group Finance Director. Pending this appointment it was decided to use the services of an interim Finance Director.

A specification for the role was drawn up detailing the career experience, capabilities and behavioural criteria required. The services of two external advisors were used to facilitate the search to identify a candidate of the appropriate calibre and with the necessary skills, knowledge and experience to support the strategic and commercial objectives to grow the Group. Candidates were interviewed by the Chief Executive, the HR Director and the Senior Independent Non-Executive Director and the proposed appointment was discussed fully with the members of the Nomination Committee. An informal meeting was convened in April 2006 (after full consultation with all Committee members) for the purposes of recommending to the Board the appointment of Bob Beveridge and to recommend to the Remuneration Committee that an appropriate service contract be drawn up setting out the terms and conditions, expectations and responsibilities of the role.

A further meeting has been held subsequent to the year-end, the principal activities of which included:

- A review of the output from the Board Performance Evaluation exercise with a view to assessing the contributions made by the individual directors prior to recommending their re-election to the Board.
- Consideration of the re-appointment of the Chairman to the Board.
- Consideration of the re-election of the non-executive directors to the Board.
- Consideration of the re-election of the executive directors to the Board.
- Consideration of the continuation of Colin Smith in the role of Senior Independent Non-Executive Director.
- Consideration of the independence of Henri Talerman prior to recommending his re-election to the Board.
- Reviews of the composition of the Remuneration, Audit and Nomination Sub-Committees of the Board.

No Committee member participated in any discussion relating to their personal position.

Remuneration report

This report, prepared on behalf of the Board, sets out the policy and disclosures on remuneration for the executive and non-executive directors of the Board. It takes full account of The Code and it complies with the requirements introduced by the Directors' Remuneration Report Regulations 2002. A resolution will be put to shareholders at the Company's Annual General Meeting inviting them to approve this report.

In accordance with Schedule 7A "Directors' Remuneration Report" of the Companies Act 1985, those paragraphs that have been audited have been highlighted as such.

Terms of reference and activities in the year

Both the constitution and operation of the Remuneration Committee comply with the principles incorporated in The Code.

The Committee is responsible for determining the remuneration policy for the executive directors and for key senior executives. The main duties of the Committee are:

- >> To review the ongoing appropriateness and relevance of the remuneration policy.
- >> To make recommendations to the Board on remuneration packages for the executive directors and the composition/split of the total compensation packages.
- >> To review and consider the remuneration packages and terms of employment for other senior executive management.
- >> To review the implementation and operation of the Company's share option schemes and long-term incentive plans.
- >> To review the Company's management development plans.

The Committee is authorised by the Board to investigate any matters within its terms of reference. It meets as frequently as needed, and at least once a year to consider remuneration packages for directors and senior executives including reviews of base salary, pension rights, bonus and share related awards. In the financial year ended 30 June 2006, the Committee met seven times in July, September, twice in October and in December 2005 and in February and April 2006.

The Committee's terms of reference are reviewed regularly to ensure continuing compliance with evolving best practice guidelines. A review during the year concluded that it complies with all relevant guidelines and operates satisfactorily and no changes were proposed.

The Charter setting out the constitution and terms of reference of the Remuneration Committee is available from the Group's website at www.mcbride.co.uk.

The principal activities of the Committee during the period were to deal with the termination of Mike Handley's service contract; to consider and recommend to the Board the service contract, remuneration and objectives for Miles Roberts on his appointment as Chief Executive; to consider senior executive salary reviews and bonus and incentive scheme payments; to deal with the establishment and implementation and subsequent allocation of LTIP awards; and to consider and recommend to the Board the service contract for the new Group Finance Director. Attendance by individual members of the Committee is shown in the table on page 39.

Composition of the Remuneration Committee

The composition of the Committee was revised with effect from 1 August 2005 when Henri Talerman stepped down so that membership now comprises exclusively independent non-executive directors with Bob Lee as Chairman and the other members being the other independent non-executive directors – Christine Bogdanowicz-Bindert and Colin Smith. A quorum of the Committee is three. Meetings may be attended by the Chief Executive on all matters except those relating to his own remuneration. Advice is sought from the Human Resources director and from external advisers as and when required.

Remuneration policy

Our remuneration policy for executives, including the executive directors, is based on the following core principles:

- >> Basic salary for all employees is targeted generally at around the median of the Company's comparator group; this can rise to between median and upper quartile for consistently strong or outstanding individual performance.
- >> For all executives this is combined with performance related variable elements to result in between median and upper quartile total remuneration against delivery of superior business results and returns to shareholders.
- >> A portfolio of incentives and rewards balance the achievement of short and long-term business objectives.
- >> The performance conditions for our long-term incentive plan (LTIP) are based equally on the measurable delivery of strong growth in total shareholder return and earnings per share and are widely understood by shareholders. The three year vesting term serves to incentivise loyalty and reward superior long-term performance.
- >> Annual bonuses for executives may be earned up to a maximum of 50% of salary, dependent upon a combination of annual profit and specific, measurable, personal objectives based on achievement of a combination of both financial and non-financial goals.
- >> Total remuneration potential is designed to be competitive in the relevant market, thereby enabling us to attract, retain and motivate high calibre executives.
- >> Alignment of remuneration policy with company strategy and shareholder interests.

The Committee carefully considers on a regular basis the market positioning of all executives for whose remuneration it is responsible against the most recent and relevant market data available. For example, for the Chief Executive Officer, market data for the CEO position in companies of comparable size, complexity and international spread in the UK FTSE 250 index is used. A similar approach is taken for other senior executives. We benchmark against similar positions in companies of comparable size, complexity and international scale. Following shareholder approval of the LTIP at the 2005 AGM, there has been no further review of the Company's share-based incentive schemes. However, we will continue to keep this under regular review to ensure the schemes' continued effectiveness and compliance with market guidelines and contribution to shareholder value.

The Committee is committed to keeping its policy under regular review, taking into account changes in the competitive environment and in remuneration practices. We also pay due regard to guidelines set by the key institutional shareholder bodies. During the year we engaged the services of the independent consultants, Watson Wyatt LLP, for support and advice on the proposals for the LTIP for the executive directors and senior executives. Watson Wyatt have no other connection with the Company. Our legal advisers have also assisted with the preparation of service contracts for the executive directors during the year. Arrangements in relation to termination of service contracts were specifically reviewed and there are no excessive severance arrangements or pension benefits in place for the executive directors.

Total remuneration

The performance of the executive directors and key members of senior management is reviewed on a regular basis and this is used as a precursor to evaluating their annual remuneration and to establish appropriate incentive schemes. The aim is to provide packages which take account of individual performance whilst remaining sensitive to pay and employment conditions elsewhere in the Company and externally. Current packages typically comprise a mix of performance and non-performance-related elements. Basic salary and benefits-in-kind are the elements of non-performance-related remuneration. This element is reviewed annually with levels set by reference to appropriate external market data. Variable remuneration consists of two fundamental elements: annual cash bonus and discretionary share based awards. These incentives are performance-related and represent a significant part of the executive directors' total potential remuneration. Bonuses represent a short-term performance-related element of remuneration with payments linked to annual business targets and by reference to data from comparable companies. Share based awards represent longer-term performance-related elements of remuneration. No new share options have been granted during the year. Awards under the LTIP have been made as disclosed on page 47. The remuneration of the Chairman and the non-executive directors is determined by the Board as a whole taking account of market rates based on independent advice as deemed necessary. Individual directors do not participate in the decisions concerning their own remuneration.

Remuneration report
continued

Base salaries
The base salaries of executive directors and senior executives are reviewed annually taking into account individual experience, performance and responsibilities as well as pay awards made to other employees, and benchmarking against competitor company remuneration for similar positions. The Remuneration Committee consults with the Chief Executive and pays due regard to his recommendations for other senior executives. The Committee also has access to professional advice as may be deemed necessary from inside and outside the Company. Salaries are paid monthly in arrears by bank transfer.

Annual bonus
The Remuneration Committee aims to ensure that executive directors and senior executives are fairly rewarded for their contribution to the success of the Group. For the year ending 30 June 2007 there is therefore a significant bonus element for the executive directors of up to 50% of basic pay. Miles Roberts' and Bob Beveridge's bonus plans include elements based on achievement of specific non-financial goals relating to growth strategy, succession planning and management development progress and financial strategy. This element accounts for 30% of any bonus payment with 70% linked to achievement of financial goals. Bonuses for other senior executives are linked to achievement of a combination of budgeted financial targets and other non-financial goals. No payments are made if these targets are not reached. All bonuses are non-pensionable. Payments of up to 15% were made to the Group's executive directors and senior executives in respect of the year ended 30 June 2006.

Share options
Whilst the directors are not required to hold any qualification shares, the Remuneration Committee believes that share ownership by management serves to strengthen the link between their personal interests and those of shareholders. Acquisition of shares in the Company is therefore encouraged and details of directors' shareholdings are shown in the table on page 46. Whilst the executive directors and senior executives are eligible to participate in the Company's share option schemes, no new grants of share options were made during the year ended 30 June 2006. Details of existing share options held by the executive directors are shown on page 47.

The Committee's policy has been for share option grants to be limited to twice annual basic salary but for the options not to be issued at a discount and not to be pensionable. No consideration is payable for the grant of an option and vesting of options is subject to the achievement of performance targets over a set performance period. All schemes have a ten-year life span and options are exercisable after three years from the date of grant, subject to satisfaction of performance conditions, until ten years after the date of grant. Performance criteria have been selected by the Remuneration Committee in accordance with contemporaneous market practice.

The share scheme rules incorporate provisions to allow the Company, at its discretion, to transfer its National Insurance Contributions (NICs) liability to individual grantees. In the past, the directors chose to exercise this discretion in relation to the exercise of options granted to senior executives across the Group. In the interests of consistency, this policy will be continued for future exercises. Options for the executive directors fell due for exercise during the year but these have not been exercised to date.

Long-Term Incentive Plan
Shareholders approved the 2005 Long-Term Incentive Plan ('the LTIP') at the 2005 AGM. The LTIP's objectives are to align the long-term interests of shareholders and management; to reward achievement of long-term stretching targets; and to recruit, retain and motivate management of the required calibre. Awards are made to executive directors and to senior executives who are not Board members but who have a significant influence over the Company's ability to meet its strategic objectives. Whilst it is not a requirement of the LTIP, executives are encouraged to use the scheme to increase their share ownership in the Company.

The LTIP operates over a rolling 3-year period with vesting of shares dependent on achievement of total shareholder return ('TSR') and earnings per share ('EPS') measures. The FTSE mid-250 index is used as the comparator group for TSR. Performance will be rewarded only for above median performance on a rising scale up to the top decile and EPS will have to exceed RPI by more than 3 percentage points per annum. The EPS measure represents only 50% of the criteria, and these targets have been selected recognising the flat nature of the manufacturing sector as a whole. We can confirm that the EPS measure will be adjusted as necessary to recognise any share buy-backs undertaken by the Company.

These criteria were discussed at length with the Company's main shareholders by both the Chairman of the Remuneration Committee and the Senior Independent Non-Executive Director. The Committee had also taken independent external advice and consulted at length. The Committee considers TSR and EPS to be key long-term measures of the Group's performance. The Committee believes that the current LTIP remains appropriate to the Company's current circumstances and prospects. Nevertheless, we are committed to reviewing the LTIP's appropriateness on an ongoing basis.

In the year under review, executive directors and senior executives were eligible to receive awards in a range of up to 100% of basic salary. Details of LTIPs awarded to the executive directors are shown on page 47. It is the Committee's intention that long-term incentives will continue to be provided under the LTIP and that phased awards will be made on an annual basis but always subject to individual performance and at the discretion of the Committee. A decision on awards for the year ending 30 June 2007 will be considered in due course. In the year ended 30 June 2006, £46,000 was charged to the income statement in respect of the LTIP.

Directors' service contracts
In line with the recommendations of The Code, it is the Committee's policy for directors' service contracts to stipulate a maximum notice period of 12 months. Both Miles Roberts' and Bob Beveridge's contracts stipulate 12 months' notice by the Company and 12 months' by the director. The current service contracts of the executive directors were entered into on 13 July 2005 with Miles Roberts and on 27 April 2006 with Bob Beveridge. All directors' contracts are available for inspection at the Annual General Meeting.

Executive directors
The service contracts provide for the executive directors to provide services to the Company on a full-time basis. The contracts contain, in addition to remuneration terms, details of holiday and sick pay entitlement, restrictions and disciplinary matters.

The contracts contain restrictive covenants for periods of up to 6 months post employment relating to non-competition, non-solicitation of the Group's customers, suppliers and employees and indefinitely with respect to confidential information. In addition, they provide for the Group to own any intellectual property rights created by the directors in the course of their employment. The Company allows the executive directors to hold non-executive positions outside the Company subject to Board approval. The Company's policy on retention and disclosure of earnings relating to such positions is set out on page 45.

The Committee recognises the provisions of The Code for compensation commitments to be stipulated in directors' service contracts with regard to early termination. Current practice is not to include liquidated damages clauses. Instead, the Committee places emphasis on mitigation and reserves its position to deal with such matters on a case by case basis acting fairly whilst at the same time taking a robust line. This practice will be kept under review.

Other benefits
The Company pays into defined contribution pension schemes on behalf of Miles Roberts based upon basic salary at 35% and at 20% for Bob Beveridge. Mike Handley's pension contributions were based on 50% of salary. In addition, the executive directors enjoy similar benefits to many other employees of the Group including private medical insurance, a fully expensed car or equivalent and life assurance cover.

Non-executive directors

The non-executive directors do not have service contracts but renewable letters of appointment. These were last issued on 1 July 2004. The intention is that the non-executive directors will normally be appointed for an initial period of up to six years. They may subsequently be invited to serve for further three year periods. Any appointment for more than nine years in total will, in any event, be subject to annual shareholder approval but, in addition, will be considered taking into account the importance of refreshing the membership of the Board and avoiding any undue reliance on any particular individual whilst assessing the contribution made by that individual together with the ongoing commitment to the role.

All the non-executive directors will be subject to re-election by shareholders on an annual basis. Their appointments may be terminated without compensation in the event of them not being re-elected by shareholders or otherwise in accordance with the Company's Articles of Association. The fees for the non-executive directors are set by the full Board and are determined by reference to fees paid by other companies of similar size and complexity and reflect the amount of time the non-executive directors are expected to devote to the Group's activities during the year. The non-executive directors receive a basic fee. A supplementary fee is paid to Committee Chairmen and to the Senior Independent Non-Executive Director to reflect their additional responsibilities. No element of their fees is performance-related and they are not eligible to participate in bonus or share incentive schemes. Their services do not qualify for pension purposes or other benefits. Details of the non-executive directors' shareholdings and emoluments are shown on page 46.

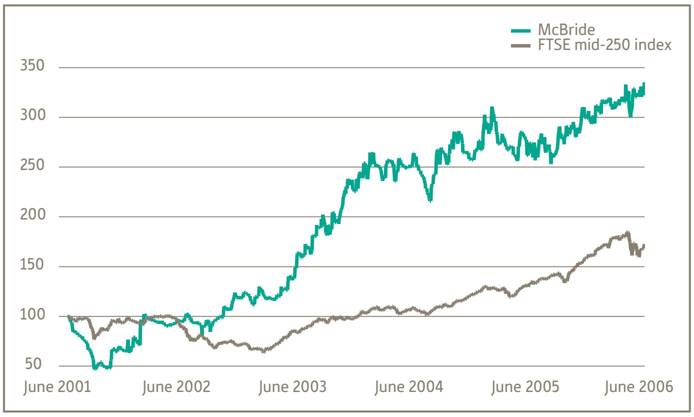
Set out below is information regarding the dates of the letters of appointment and notice periods for the non-executive directors.

Director	Date first appointed to board	Date of last appointment at AGM in	Re-election no later than AGM in	Notice period	Compensation upon early termination	Latest letter of appointment
Lord Sheppard	23/5/1993	2005	2006	3 months	None	01/7/2004
Mrs C A Bogdanowicz-Bindert	1/9/2003	2005	2006	3 months	None	01/7/2004
Mr R A Lee	1/9/2003	2005	2006	3 months	None	01/7/2004
Mr C D Smith	4/4/2002	2005	2006	3 months	None	01/7/2004
Mr H Talerman	23/5/1993	2005	2006	3 months	None	01/7/2004

Performance graph

The graph below charts the total shareholder return (share value movement plus reinvested dividends) ('TSR') over the 5 years to 30 June 2006 of shares in McBride plc compared with that of a hypothetical holding in the FTSE mid-250 index (excluding investment trusts). The directors consider the FTSE mid-250 index to be an appropriate comparator group for assessing the Company's TSR because it provides a well defined, understood and accessible benchmark and the TSR of the Company's shares relative to that of this index is one of the key performance measurements used to determine the extent of vesting of awards under the Company's Long-Term Incentive Plan.

Total shareholder return of McBride shares relative to FTSE mid-250 index between 30 June 2001 and 30 June 2006



External appointments

Executive directors are permitted, where appropriate and with Board approval, to assume non-executive directorships of other organisations. It is generally accepted that the holding of a non-executive directorship with another company should not adversely affect the ability of an executive director to perform his/her role and responsibilities properly. In fact, the holding of such an external position may enhance the individual director's experience which could serve to strengthen his/her performance and contribution to the Company. Where the Company releases executive directors to carry out non-executive duties, they will be required to disclose the fact that they retain any earnings and, if so, the amount of such remuneration. Whilst in his role as Chief Executive, Mike Handley was non-executive Chairman of Macphie of Glenbervie Ltd in Scotland and held a seat on the Board of the AISE. Miles Roberts is a non-executive director of Care UK plc and is Chairman of its Audit Committee and a member of its Remuneration Committee. During the year, he retained earnings of £28,500 relating to this role.

Remuneration report
continued

Directors' emoluments and compensation (audited)

The fixed and performance-related elements of directors' remuneration for the year ended 30 June 2006 are set out below:

Director	Fees £000	Basic salary £000	Bonus £000	Benefits[1] £000	Sub-total Year ended 30 June 2006 £000	Sub-total Year ended 30 June 2005 £000	Pension contributions Year ended 30 June 2006 £000	Pension contributions Year ended 30 June 2005 £000	Total remuneration Year ended 30 June 2006 £000	Total remuneration Year ended 30 June 2005 £000
Executive										
Mr M Handley[2]	–	14	–	1	15	459	7	210	22	669
Mr M W Roberts[3]	–	370	51	22	443	238	116	78	559	316
Mr R J Beveridge[4]	–	31	–	1	32	–	5	–	37	–
Non-executive										
Lord Sheppard[5]	108	–	–	–	108	106	–	–	108	106
Mrs C A Bogdanowicz-Bindert	27	–	–	–	27	27	–	–	27	27
Mr R A Lee	30	–	–	–	30	27	–	–	30	27
Mr C D Smith	30	–	–	–	30	30	–	–	30	30
Mr H Talerman (USA)	27	–	–	–	27	30	–	–	27	30
	222	415	51	24	712	917	128	288	840	1,205

Notes
(1) The benefits consist of the provision of a company car and fuel, private healthcare insurance and life cover.
(2) On 12 July 2005, Mike Handley stepped down as Chief Executive and resigned as a director. He was paid £658,000 following his resignation as compensation for loss of office. This included a contribution for pension and other benefits. In addition, he was allowed to retain 1,020,833 share options with an estimated notional value, being the unrealised gain on those options at the date of his resignation, of approximately £790,000.
(3) Miles Roberts' salary includes an additional amount of £38,000 relating to the period from 12 July 2005 until the appointment of an interim finance director.
(4) Bob Beveridge joined the Board as Group Finance Director and Company Secretary on 10 May 2006.
(5) Lord Sheppard funds his own office expenses.

Directors' interests (audited)

The beneficial interests of the directors (none of the directors had any non-beneficial interests during the year) in the ordinary shares of the Company at 1 July 2005 and 30 June 2006 are set out below:

Director	At 30 June 2006[1]	At 1 July 2005[2]
Lord Sheppard	2,100,000	2,100,000
Mr M W Roberts	2,000	2,000
Mr R J Beveridge	–	–
Mr M Handley	1,602,848	1,602,848
Mrs C A Bogdanowicz-Bindert	10,000	5,000
Mr R A Lee	5,000	5,000
Mr C D Smith	100,000	100,000
Mr H Talerman	2,500	2,500

Notes
(1) At the date of resignation for Mike Handley.
(2) At the date of appointment for Bob Beveridge.

Share options (audited)

Interests of directors in share options at 1 July 2005 and 30 June 2006 are set out below:

Director	Option type	Number of options at 1 July 2005	Granted in year	Exercised in year	Lapsed in year	Number of options at 30 June 2006[1][2]	Option exercise price (£)[3]	Earliest date of exercise[1]	Expiry date
Mr M Handley[2]	ESOS(A)	292,553	–	–	(292,553)	–	1.88	6 July 1998	5 July 2005
	SAYE	37,191	–	–	(37,191)	–	0.445	n/a	n/a
	ESOS(B)	555,555	–	–	–	555,555	0.585	24 Sept 2005	30 Sept 2006
	ESOS(C)	465,278	–	–	–	465,278	0.72	16 Dec 2005	30 Sept 2006
Mr M W Roberts	ESOS(B)	273,504	–	–	–	273,504	0.585	24 Sept 2005	24 Sept 2012
	ESOS(C)	236,111	–	–	–	236,111	0.72	16 Dec 2005	16 Dec 2012

ESOS (A) = 1995 Executive Share Option Scheme
ESOS (B) = 1995 International Executive Share Option Scheme (Unapproved)
SAYE = 1995 Savings-Related Share Option Scheme
ESOS (C) = 2002 Unapproved Discretionary Share Option Scheme

Notes
(1) All the share options outstanding at 30 June 2006 were exercisable at that date as the earliest date of exercise had been reached and the relevant performance criteria (which required growth in the Group's earnings per share to exceed the increase in RPI by up to 5 percentage points per annum over three financial years) had been achieved in full.
(2) Mike Handley's options are at the date of his resignation on 12 July 2005. The Board exercised its discretion in accordance with the scheme rules and allowed Mike Handley to retain 1,020,833 options following termination of his employment with the Group.
(3) Option exercise price is market value at the date of grant.

No consideration was paid for the grant of any option or award.

The market price of the Company's ordinary shares at 30 June 2006 was 177.75p and the range during the financial year was 138.25p to 177.75p.

Long-Term Incentive Plan (audited)

Interests of directors under the McBride plc 2005 Long-Term Incentive Plan at 1 July 2005 and 30 June 2006 are set out below:

Director	Date of award	Number of awards at 1 July 2005	Allocated in year	Awards vested in year	Allocations lapsed in year	Number of awards at 30 June 2006	Market price at date of allocation (£)	Vesting date
Mr M W Roberts	9 Dec 2005	–	152,769	–	–	152,769	1.551	8 Dec 2008

The performance conditions attaching to the first award under the plan are:

50% of the award is subject to a total shareholder return ("TSR") performance condition measured against the FTSE mid-250 index (excluding investment trusts) as the comparator group. If the Company's TSR performance is lower than the median of the comparator group, awards subject to the TSR condition will lapse. For TSR performance equal to or above the median of the comparator group, awards will vest on a rising scale with full vesting only if the Company's TSR performance is in the upper decile of the comparator group.

This performance measure has been selected as it is operated in conjunction with the majority of LTIPs in the same sector and the Remuneration Committee wishes to encourage senior executives to focus on ensuring that the Company's return to shareholders is competitive compared to comparable companies.

50% of the award is subject to an earnings per share ("EPS") performance condition. Awards subject to the EPS condition will lapse unless the Company's growth in EPS is at least 3 percentage points per annum above the increase in RPI, at which level half the awards subject to the EPS condition will vest. For performance above this level, awards will vest on a rising scale, with full vesting only if growth in EPS exceeds the increase in RPI by at least 5 percentage points per annum.

This performance measure has been selected because EPS is one of the key performance criteria used in the business and is a measure well understood by the senior executive team. It is something which they can directly influence.

TSR and EPS performance are measured over the period of three consecutive financial years of the Company beginning with the year of grant of the award. There will be no re-testing of the performance conditions.

Pensions (audited)

The following table shows details of pension payments into money purchase schemes for the executive directors:

Director	Current year payments £000
Mr M Handley	7
Mr M W Roberts	116
Mr R J Beveridge	5

Payments to third parties

There have been no payments made to third parties for making available the services of the directors.

Approved by the Board on 6 September 2006

Signed on behalf of the Board by

Mr R A Lee
Chairman of the Remuneration Committee

Independent Auditors' Report to the members of McBride plc

We have audited the group and parent company financial statements (the "financial statements") of McBride plc for the year ended 30 June 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. These 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.

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 auditor's 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 and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 37.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited 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 financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referenced from the Business Review section of the Directors' Report. We also 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 review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 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 financial statements, and of whether the accounting policies are appropriate to the group's and 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 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 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 EU, of the state of the group's affairs as at 30 June 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 30 June 2006;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB
Registered Auditor
6 September 2006

Consolidated income statement for the year ended 30 June 2006

	Note	Pre exceptional items 2006 £m	Exceptional items (note 3) 2006 £m	Post exceptional items 2006 £m	Pre exceptional items 2005 £m	Exceptional items (note 3) 2005 £m	Post exceptional items 2005 £m
Revenue	2	540.1	–	540.1	537.1	–	537.1
Cost of sales		(355.8)	–	(355.8)	(348.4)	–	(348.4)
Gross profit		184.3	–	184.3	188.7	–	188.7
Distribution costs		(35.2)	–	(35.2)	(34.0)	–	(34.0)
Administrative costs		(118.1)	(3.8)	(121.9)	(119.7)	(3.0)	(122.7)
Operating profit	2	31.0	(3.8)	27.2	35.0	(3.0)	32.0
Financial income		3.9	–	3.9	4.4	–	4.4
Financial expenses		(5.2)	–	(5.2)	(5.8)	–	(5.8)
Net financing costs	6	(1.3)	–	(1.3)	(1.4)	–	(1.4)
Profit before tax	7	29.7	(3.8)	25.9	33.6	(3.0)	30.6
Taxation	8	(8.7)	1.2	(7.5)	(10.1)	0.9	(9.2)
Profit for the year		21.0	(2.6)	18.4	23.5	(2.1)	21.4
Attributable to:							
Equity holders of the parent		20.8	(2.6)	18.2	23.4	(2.1)	21.3
Minority interest		0.2	–	0.2	0.1	–	0.1
Profit for the year		21.0	(2.6)	18.4	23.5	(2.1)	21.4
Earnings per ordinary share (pence)	10						
Basic				10.3			12.0
Diluted				10.1			11.6
Dividends	9						
Paid in year (£m)				8.7			7.6
Paid in year (pence per share)				4.9			4.3
Proposed (£m)				6.2			5.9
Proposed (pence per share)				3.5			3.3

Consolidated balance sheet at 30 June 2006

	Note	2006 £m	2005 £m
Non-current assets			
Intangible assets	11, 12	**15.4**	8.7
Property, plant and equipment	13	**130.6**	129.6
Other non-current assets	14	**0.5**	0.5
Deferred tax	8	**5.1**	6.0
		151.6	144.8
Current assets			
Inventories	15	**41.3**	41.3
Trade and other receivables	16	**106.6**	106.3
Cash and cash equivalents	26	**1.3**	0.3
		149.2	147.9
Total assets		**300.8**	292.7
Current liabilities			
Interest bearing loans and borrowings	20	**5.2**	4.0
Trade and other payables	17	**141.7**	143.8
Current tax payable	8	**1.7**	2.0
Provisions	18	**1.3**	4.1
		149.9	153.9
Non-current liabilities			
Interest bearing loans and borrowings	20	**25.2**	20.7
Pensions and other post-employment benefits	19	**13.7**	12.6
Provisions	18	**1.0**	0.8
Deferred tax	8	**7.1**	6.6
		47.0	40.7
Total liabilities		**196.9**	194.6
Net assets		**103.9**	98.1
Equity			
Issued share capital	22	**17.7**	17.7
Share premium account	24	**141.8**	141.8
Other reserves	24	**(0.8)**	0.3
Retained earnings	24	**(55.2)**	(61.9)
Total equity attributable to equity holders of the parent		**103.5**	97.9
Minority interest	24	**0.4**	0.2
Total equity and reserves	24	**103.9**	98.1

These financial statements were approved by the Board of Directors on 6 September 2006 and were signed on its behalf by:

M W Roberts
R J Beveridge
Directors

Consolidated cash flow statement for the year ended 30 June 2006

	Note	2006 £m	2005 £m
Profit before tax		**25.9**	30.6
Net financing costs		**1.3**	1.4
Pre-tax exceptional charge in the year		**3.8**	3.0
(Profit)/loss on sale of property, plant and equipment		**(0.3)**	0.1
Depreciation & amortisation		**18.0**	18.6
Operating cash flow before changes in working capital		**48.7**	53.7
Decrease in receivables		**2.1**	9.6
Decrease/(increase) in inventories		**1.5**	(1.1)
Decrease in payables		**(6.4)**	(7.4)
Cash outflow in respect of exceptional items		**(5.5)**	(3.7)
Cash generated from operations		**40.4**	51.1
Interest paid		**(2.4)**	(2.8)
Taxation paid		**(6.5)**	(7.2)
Net cash from operating activities		**31.5**	41.1
Cash flows from investing activities			
Proceeds from sale of land and buildings		**2.2**	–
Acquisition of property, plant and equipment		**(19.1)**	(17.5)
Acquisition of intangible assets		**(0.4)**	–
Acquisition of subsidiaries	4	**(7.3)**	(2.8)
Interest received		**0.3**	0.2
		(24.3)	(20.1)
Cash flows from financing activities			
Proceeds from issue of share capital		**0.6**	2.9
Repurchase of own shares		**(3.3)**	(8.5)
Increase/(repayment) of borrowings		**6.0**	(8.2)
Payment of finance lease liabilities		**(0.4)**	(0.4)
Dividends paid		**(8.7)**	(7.6)
		(5.8)	(21.8)
Net increase/(decrease) in cash and cash equivalents		**1.4**	(0.8)
Cash and cash equivalents at start of year		**(2.7)**	(1.8)
Effect of exchange rate fluctuations on cash held		**–**	(0.1)
Cash and cash equivalents at end of year		**(1.3)**	(2.7)

	Note	2006 £m	2005 £m
Reconciliation of cash and cash equivalents per the balance sheet and cash flow statement			
Cash and cash equivalents per the balance sheet	26	**1.3**	0.3
Overdrafts	26	**(2.6)**	(3.0)
Cash and cash equivalents per the cash flow statement		**(1.3)**	(2.7)

Reconciliation of net cash flow to movement in net debt for the year ended 30 June 2006

	Note	2006 £m	2005 £m
Increase/(decrease) in cash and cash equivalents in the year		**1.4**	(0.8)
Cash (inflow)/outflow from movement in debt		**(6.0)**	8.2
Movement on finance leases		**0.4**	0.4
Change in net debt resulting from cash flows		**(4.2)**	7.8
Lease financing acquired with subsidiary		**–**	(0.3)
Other new lease financing		**–**	(0.1)
Translation differences		**(0.5)**	(0.4)
Movement in net debt in the year		**(4.7)**	7.0
Net debt at the beginning of the year		**(24.4)**	(31.4)
Net debt at the end of the year	26	**(29.1)**	(24.4)

Consolidated statement of recognised income and expense for the year ended 30 June 2006

	2006 £m	2005 £m
Profit for the year	**18.4**	21.4
Foreign exchange translation differences	**0.7**	(0.1)
Net loss on hedge of net investment in foreign subsidiaries	**(0.7)**	–
Cash flow hedge reserve movement	**0.4**	–
Tax on items taken directly to equity	**(0.1)**	–
Actuarial loss net of deferred tax	**(0.6)**	(1.1)
Total recognised income and expense for the year	**18.1**	20.2
Attributable to:		
Equity shareholders of the parent	**17.9**	20.0
Minority interest	**0.2**	0.2
	18.1	20.2
Total recognised income and expense for the year	**18.1**	–
Adjustments relating to implementation of IAS 32 and IAS 39 from 1 July 2005	**(1.5)**	–
	16.6	–

Notes to the financial statements

1. Accounting policies

Basis of preparation

For the first time, the annual results of the Group have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union ("Adopted IFRS"). The financial statements have also been prepared in accordance with the Companies Act 1985.

Comparative information has also been restated, except that the following optional exemptions, provided by IFRS 1 from full retrospective application of IFRS accounting policies, have been applied:

- *IFRS 3 Business combinations* – the Group has elected to apply IFRS 3 prospectively from 1 July 2004 ("the transition date") rather than restate previous business combinations. As a result the carrying amount of goodwill in the Group balance sheet at 1 July 2004 is brought forward to the opening balance sheet without adjustment;
- *IAS 21 The effects of changes in foreign exchange rates* – the Group has elected to reset the foreign currency translation reserve to zero at the date of transition;
- *IAS 32/39 Financial instruments* – the Group has elected to take the exemption not to restate comparative information for financial instruments. As a result, comparative information for the year ended 30 June 2005 is as previously reported under UK GAAP; and
- *IFRS 2 Share-based payments* – the Group has adopted the exemption to apply IFRS 2 only to share-based payment awards granted after 7 November 2002 and not vested at 1 January 2005.

An explanation on how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 28, which also shows the balance sheet at 1 July 2004.

The consolidated financial statements are prepared on the historical cost basis except where IFRSs require an alternative treatment. The principal variations to historical cost relate to pensions (IAS 19), financial instruments (IAS 39) and share-based payments (IFRS 2), which are stated at fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year; or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed further on in this note.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 July 2004 for the purposes of the transition to IFRSs, except in respect of the optional exemptions described above.

Basis of consolidation

The Group financial statements consist of the financial statements of McBride plc (the Company) and all its subsidiary undertakings.

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

(ii) Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised gains and losses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rate of exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

The assets and liabilities of overseas subsidiaries are translated at the closing rates of exchange ruling at the balance sheet date. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the acquired company and recorded initially at the transaction date exchange rate and thereafter at the closing rate of exchange ruling at the balance sheet date. The income and expenses of foreign operations are translated at the average rates of exchange for the year. The exchange differences arising on retranslation are taken directly to a separate component of equity. Exchange differences arising from the retranslation of a net investment in a foreign operation less exchange differences on foreign currency borrowings which effectively hedge that operation are taken to equity. On disposal of a foreign operation, accumulated exchange differences are recognised in the income statement as a component of the gain or loss on disposal.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is calculated on a straight-line basis and charged to the income statement over the estimated useful life of the asset as follows:

Freehold buildings	– over 50 years
Leasehold buildings	– life of the lease
Plant and machinery	– 8 to 10 years
Computer equipment	– 3 to 5 years
Motor vehicles	– 4 years
Moulding equipment	– 3 to 5 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of identifiable net assets and contingent liabilities of a subsidiary or joint venture at the date of acquisition. Goodwill on transition at 1 July 2004 represents the cost less amortisation charged prior to the adoption of IFRS.

The Group assesses the carrying value of goodwill for impairment annually or, more frequently, if events or changes in circumstances indicate that such carrying value may not be recoverable. Goodwill that arose on businesses acquired prior to the introduction of UK GAAP accounting standard FRS 10, in the year commencing 1 July 1998 will remain written off to reserves.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development.

Notes to the financial statements
continued

1. Accounting policies (continued)

Impairment

At each balance sheet date the Group reviews the carrying amounts of certain of its assets (e.g. goodwill, intangible assets and property, plant and equipment) to determine whether there are any indications of impairment. If any such indication exists, the asset's recoverable amount is estimated and if this is found to be less than the carrying amount, then the carrying amount is reduced to its recoverable amount. An impairment charge is recognised in the income statement in the year in which it occurs. The recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate reflecting the risks inherent in the asset.

Tangible and intangible non-current assets were tested for impairment at 1 July 2004, the date of transition to IFRS's. At that time there was no indication that impairment was required.

Leased assets

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on a first-in, first-out basis.

Finished goods and work in progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts, if these are payable on demand and part of the Group's cash management policy.

Net financing costs

Net financing costs comprise interest payable on borrowings, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on derivatives where hedge accounting is not applied or is ineffective. Interest income is recognised in the income statement as it accrues.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in the income statement when the liabilities are derecognised, as well as through the amortisation process.

Employee benefits

The Group accounts for pensions and other post-employment benefits in accordance with IAS 19 Employee Benefits. In respect of defined benefit pension schemes, the pension surplus/deficit recognised in the balance sheet represents the difference between the fair value of plan assets and the present value of the defined benefit obligation at the balance sheet date. The net defined benefit obligation is determined by qualified actuaries using the projected unit credit actuarial valuation method. The income statement charge is split between an operating service cost and financing income and charge. Actuarial gains and losses are recognised immediately in the Statement of Recognised Income and Expense.

Payments to defined contribution schemes are recognised as an expense as they fall due.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is accounted for as a contingent asset.

Contingent liabilities and assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When an outflow becomes probable, it is recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Revenue

Revenue in the income statement represents the amounts, net of trade discounts and rebates and excluding value added tax, derived from the provision of goods to third party customers during the year. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, the amount of revenue can be measured reliably and receipt of payment is probable.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Deferred tax is provided, using the balance sheet liability method, on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities not in business combinations that affect neither accounting nor taxable profit.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are enacted or substantially enacted in respect of the period when the asset is realised or the liability is settled.

1. Accounting policies (continued)

Derivative financial instruments

The Group does not enter into speculative derivative contracts. The Group uses derivative financial instruments such as foreign currency forward contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments and is the amount that McBride would receive or pay to terminate the swap at the balance sheet date. Changes in fair value are immediately recognised in the income statement except where hedge accounting is applicable (see below).

The Group opted not to implement IAS 32/39 for the comparative year and therefore the following accounting policy is still applicable to the comparatives disclosed:

All instruments were used for hedging purposes to alter the risk profile of an existing underlying exposure of the Group in line with the Group's risk management policies. Amounts payable or receivable in respect of interest rate swaps were recognised as adjustments to interest expense over the period of the contracts. Transactions denominated in foreign currencies were recorded at the rate ruling on the date of the transaction, unless matching forward foreign exchange contracts had been entered into, in which case the rate specified in the relevant contract was used. At the balance sheet date unhedged monetary assets and liabilities denominated in foreign currencies were translated at the rate of exchange ruling at that date.

Hedge accounting

Cash flow hedge

For the purposes of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecasted transaction.

In relation to cash flow hedges where forward foreign currency contracts are used to hedge firm commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of a non-monetary asset or a liability, then, at the time the asset or liability is recognised, the associated gain or loss that had previously been recognised in equity is included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged firm commitment affects the income statement, for example when the future sale actually occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Hedging of net investment

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised directly in equity to the extent that the hedge is effective. To the extent the hedge is ineffective, such differences are recognised in the income statement. When the hedge of a net investment is disposed of, the cumulative amount in equity is transferred to the income statement as an adjustment to the income statement on disposal.

Share-based payments

The Group operates an equity settled share-based compensation plan. Share-based payments are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on an estimate of shares that will eventually vest and updated for changes in non-market conditions. Fair value is measured by use of a relevant option pricing model.

Segments

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment), or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which they are declared and approved. Interim dividends are recognised in the period in which they are paid.

Accounting estimates and judgements

Management discussed with the audit committee the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of them.

Note 11 contains information about the assumptions and their risk factors relating to goodwill information. In note 21 analysis is given of the foreign exchange risk exposure of the Group.

The Group's defined benefit pension schemes and similar arrangements are assessed at least annually in accordance with IAS 19. The accounting valuation, which was based on assumptions determined with independent actuarial advice, resulted in a pre-tax deficit of £12.3 million being recognised on the balance sheet at 30 June 2006 (see note 19). The size of the deficit is sensitive to the market value of the assets held by the schemes, the discount rate used, actuarial liabilities, mortality and other demographic assumptions, and the level of contributions. Further details are disclosed in note 19.

As described in the policy above, the Group measures provisions at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Estimates are made taking account of information available and different possible outcomes.

Accounting Standards issued but not adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2006, and have not been applied in preparing these consolidated financial statements:

- *IFRS 7 Financial Instruments – Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require additional disclosures with respect to the Group's financial instruments and share capital.
- *IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.
- *IFRIC 8 Scope of IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.
- *IFRIC 9 Reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.
- *IFRIC 10 Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e., 1 July 2004). The adoption of IFRIC 10 is not expected to have an impact on the Group's consolidated financial statements.

Notes to the financial statements
continued

Exchange rates

The exchange rates against sterling used for the periods were as follows:

	2006	2005
Average rate:		
– Euro	**1.46**	1.46
– Polish Zloty	**5.74**	6.14
– Czech Koruna	**42.4**	44.9
– Hungarian Forint	**372.1**	361.3

	2006	2005
Closing rate:		
– Euro	**1.45**	1.48
– Polish Zloty	**5.90**	5.99
– Czech Koruna	**41.3**	44.5
– Hungarian Forint	**409.7**	365.7

2. Segment information

Segment information is presented below in respect of the Group's geographic, UK, Western Continental Europe and Eastern Continental Europe, and business, Household and Personal Care, segments. The primary format, geographic segments, is based on the Group's operating divisions and internal reporting structure.

In previous years there were two geographic segments with Eastern Continental Europe incorporated as part of Western Continental Europe (previously called Continental Europe).

Geographic segments

	Segment revenue		Segment profit	
	2006 £m	2005 £m	**2006 £m**	2005 £m
UK	**249.8**	243.3	**21.8**	21.4
Western Continental Europe	**280.3**	286.2	**9.0**	13.7
Eastern Continental Europe	**21.9**	15.8	**1.6**	1.2
Total reporting segments	**552.0**	545.3	**32.4**	36.3
Inter segment revenue	**(11.9)**	(8.2)		
Exceptional items (see note 3)			**(3.8)**	(3.0)
Corporate			**(1.4)**	(1.3)
Revenue/Operating profit	**540.1**	537.1	**27.2**	32.0
Net finance costs			**(1.3)**	(1.4)
Taxation			**(7.5)**	(9.2)
Profit for the year			**18.4**	21.4

Corporate costs relate primarily to head office costs that are not allocated to one of the geographic segments.

	Segment assets		Segment liabilities	
	2006 £m	2005 £m	**2006 £m**	2005 £m
UK	**119.1**	115.8	**(70.1)**	(71.7)
Western Continental Europe	**163.2**	160.5	**(85.0)**	(87.8)
Eastern Continental Europe	**12.1**	9.8	**(4.0)**	(2.5)
Total reporting segments	**294.4**	286.1	**(159.1)**	(162.0)
Corporate	**6.4**	6.6	**(37.8)**	(32.6)
Total	**300.8**	292.7	**(196.9)**	(194.6)

Corporate liabilities include external debt and tax liabilities.

	Segment capital expenditure*		Segment amortisation and depreciation	
	2006 £m	2005 £m	**2006 £m**	2005 £m
UK	**8.7**	8.0	**9.0**	9.5
Western Continental Europe	**10.1**	9.1	**8.4**	8.6
Eastern Continental Europe	**0.7**	0.3	**0.5**	0.5
Total reporting segments	**19.5**	17.4	**17.9**	18.6
Corporate	**–**	0.1	**0.1**	–
Total	**19.5**	17.5	**18.0**	18.6

*Capital expenditure on property, plant and equipment and intangible assets.

Business segments

	Segment revenue		Segment profit	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Household	**434.9**	441.0	**23.2**	28.3
Personal Care	**105.2**	96.1	**9.2**	8.0
Total reporting segments	**540.1**	537.1	**32.4**	36.3
Exceptional items (see note 3)			**(3.8)**	(3.0)
Corporate			**(1.4)**	(1.3)
Revenue/Operating profit	**540.1**	537.1	**27.2**	32.0
Net finance costs			**(1.3)**	(1.4)
Taxation			**(7.5)**	(9.2)
Profit for the year			**18.4**	21.4

Corporate costs relate primarily to head office costs that are not allocated to one of the business segments.

	Segment assets		Segment capital expenditure*	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Household	**229.7**	230.5	**14.5**	14.8
Personal Care	**64.7**	55.6	**5.0**	2.6
Total reporting segments	**294.4**	286.1	**19.5**	17.4
Corporate	**6.4**	6.6	**–**	0.1
Total	**300.8**	292.7	**19.5**	17.5

*Capital expenditure on property, plant and equipment and intangible assets.

External revenue by destination

Segmental information is also presented below in respect of external revenue by destination. In previous years the three segments used in this analysis were UK, Continental Europe and Rest of the World and revenue to Eastern Continental Europe was previously included within Continental Europe. 2005 has been restated.

	2006 £m	2005 £m
UK	**233.7**	227.4
Western Continental Europe	**263.9**	274.1
Eastern Continental Europe and Rest of World	**42.5**	35.6
Total	**540.1**	537.1

3. Exceptional items

The Group presents certain items as "exceptional". These are items which, in management's judgement, need to be disclosed by virtue of their size or incidence in order to obtain a proper understanding of the financial information.

There was a £3.8 million pre-tax operating exceptional charge to the income statement in the year. This related primarily, £2.5 million, to a programme to reduce administrative costs in the Group's Western Continental Europe division, that enabled a reduction of 85 jobs without significant change in support provided to the business. The remainder of the exceptional charge related to restructuring the UK division, £0.5 million, and a termination payment and related costs, £0.8 million, for the previous Chief Executive.

The £3.0 million 2005 pre-tax exceptional items included a £1.3 million provision for the closure of the production plant at Bampton UK and transfer of its activities to the aerosol plant at Hull, and a £1.7 million provision relating to a Group wide rationalisation programme.

In terms of segment analysis in note 2, the exceptional charge relates to UK £0.5 million (2005: £2.0m), Western Continental Europe £2.5 million (2005: £0.7m) and Corporate £0.8 million (2005: £0.3m) on a geographic basis and Household £2.9 million (2005: £2.7m), Personal Care £0.1 million (2005: nil) and Corporate £0.8 million (2005: £0.3m) on a business basis.

4. Acquisition

The Group acquired the household liquids business of Sanmex International Limited, a UK based Private Label supplier, during the year for a total cash consideration of £7.6 million.

	Book value £m	Provisional fair value adjustments £m	Fair value £m
Net assets acquired:			
Property, plant and equipment	0.2	–	0.2
Intangible assets	–	0.2	0.2
Inventory	1.1	(0.2)	0.9
	1.3	–	1.3
Goodwill			6.3
Total consideration			7.6
Satisfied by: cash consideration on acquisition			7.6

As at 30 June 2006, £7.3 million had been paid with the remaining amount settled since the year end.

The goodwill arising on the acquisition is attributable to additional sales volume acquired and operating synergies obtained from including production in existing plants. Intangible assets mostly relate to customer lists.

The business contributed £1.6 million of revenue between the date of acquisition and the balance sheet date whilst the profit impact was immaterial. It would be impractical to disclose either the revenue or profit impact of this acquisition had it been completed on the first day of the year ended 30 June 2006 because this would depend on an assessment of customer orders and synergistic benefits.

5. Related party transactions

In the course of normal operations, related party transactions entered into by the Group have been contracted on an arms length basis.

Key management personnel include individuals that are not executive directors of the Group but do have authority and responsibility for planning, directing and controlling activities of the key operating divisions as disclosed in the segmental analysis. They are members of the Group management team as described on page 39.

Remuneration of key management personnel, excluding executive directors, which is detailed on page 46, is as follows:

	2006 £m	2005 £m
Short-term employee benefits	**0.1**	0.1
Post-employment benefits	**0.1**	0.1
Other remuneration	**0.6**	0.5
	0.8	0.7

6. Net financing costs

	2006 £m	2005 £m
Deposit interest receivable	**–**	0.2
Fair value gains and interest differentials on derivatives	**1.1**	1.3
Expected return on pension scheme assets (note 19)	**2.8**	2.9
Financial income	**3.9**	4.4
Interest expense on bank loans and overdrafts	**(1.5)**	(1.5)
Finance charges payable under finance leases	**(0.2)**	(0.2)
Interest cost on pension scheme liabilities (note 19)	**(3.1)**	(3.0)
Other finance costs	**(0.4)**	(0.3)
Foreign exchange losses	**–**	(0.8)
Financial expense	**(5.2)**	(5.8)
Net financing cost	**(1.3)**	(1.4)

7. Profit before tax

Profit before tax is stated after charging:

	2006 £m	2005 £m
Auditors' remuneration:		
– Audit services	**0.4**	0.4
– Tax and other services	**0.2**	0.2
Depreciation and other amounts written off owned property, plant and equipment	**17.6**	18.4
Depreciation and other amounts written off leased property, plant and equipment	**0.2**	0.2
Hire of plant and machinery – rentals payable under operating leases	**2.1**	1.4
Hire of other assets – rentals payable under operating leases	**0.2**	0.8
(Profit)/loss on sale of property, plant and equipment	**(0.3)**	0.1
Research and development costs written off during the year*	**4.0**	4.5
Government grants towards training	**(0.1)**	–
Amortisation of intangibles	**0.2**	–
Net foreign exchange losses on trading items	**0.5**	–

*During the years ended 30 June 2005 and 2006, all research and development expenditure was expensed as incurred as the criteria for capitalising development expenditure were not met.

Notes to the financial statements
continued

8. Taxation

Analysis of tax charge in income statement	2006 £m	2005 £m
Current tax:		
UK corporation tax	**5.5**	4.6
Overseas tax	**1.7**	3.9
Under provided in prior years	**0.2**	–
Current tax charge	**7.4**	8.5
Deferred tax:		
UK	**(0.9)**	0.4
Overseas	**1.0**	0.3
Deferred tax charge	**0.1**	0.7
Total tax charge for the year	**7.5**	9.2

UK corporation tax is calculated at the United Kingdom standard rate of 30% (2005: 30%) of the estimated assessable profit for the year.

Overseas tax is calculated at the rates prevailing in the respective jurisdictions.

Tax reconciliation

The total tax charge on the Group's profit before tax for the year differs from the standard rate of corporation tax for the following reasons:

	2006 £m	2005 £m
Profit before tax	**25.9**	30.6
Expected tax charge at 30%	**7.8**	9.2
Effect of overseas tax rates	**–**	0.3
Utilisation of tax losses	**(0.3)**	(0.8)
Expenses not deductible for tax purposes	**0.1**	(0.2)
Adjustments to tax charge in respect of prior periods	**0.2**	(0.4)
Other items	**(0.3)**	1.1
Total tax charge for the year	**7.5**	9.2
Effective tax rate	**29%**	30%

Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements during the current and prior reporting period.

Deferred tax asset/(liability)	Accelerated tax depreciation £m	Tax losses £m	Retirement benefit obligations £m	Share based payments £m	Surplus ACT £m	Other £m	Total £m
At 1 July 2004	(14.4)	1.7	–	–	7.4	0.4	(4.9)
Transfer to current tax	–	–	–	–	(0.5)	–	(0.5)
(Charge)/credit to income statement	(0.6)	(0.6)	–	–	(1.2)	1.7	(0.7)
Credit/(charge) to equity	–	–	3.4	2.0	–	0.1	5.5
Exchange differences	–	–	–	–	–	–	–
At 30 June 2005	(15.0)	1.1	3.4	2.0	5.7	2.2	(0.6)
At 1 July 2005	**(15.0)**	**1.1**	**3.4**	**2.0**	**5.7**	**2.2**	**(0.6)**
Transfer to current tax	**–**	**–**	**–**	**–**	**(1.1)**	**–**	**(1.1)**
(Charge)/credit to income statement	**(0.7)**	**(0.4)**	**0.2**	**–**	**1.5**	**(0.7)**	**(0.1)**
Credit/(charge) to equity	**–**	**–**	**0.2**	**(0.1)**	**–**	**(0.2)**	**(0.1)**
Exchange differences	**(0.1)**	**–**	**–**	**–**	**–**	**–**	**(0.1)**
At 30 June 2006	**(15.8)**	**0.7**	**3.8**	**1.9**	**6.1**	**1.3**	**(2.0)**
Deferred tax asset at 30 June 2006	**–**	**0.7**	**3.8**	**1.9**	**6.1**	**(7.4)**	**5.1**
Deferred tax liability at 30 June 2006	**(15.8)**	**–**	**–**	**–**	**–**	**8.7**	**(7.1)**
	(15.8)	**0.7**	**3.8**	**1.9**	**6.1**	**1.3**	**(2.0)**
Deferred tax asset at 30 June 2005	–	1.1	3.4	2.0	5.7	(6.2)	6.0
Deferred tax liability at 30 June 2005	(15.0)	–	–	–	–	8.4	(6.6)
	(15.0)	1.1	3.4	2.0	5.7	2.2	(0.6)

No deferred tax has been recognised in respect of timing differences associated with the unremitted earnings of overseas subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and either it is probable that such differences will not reverse in the foreseeable future or if a distribution of profits is foreseen based on the current repatriation policy of the Group no incremental tax is expected to be paid.

Unremitted earnings of overseas subsidiaries at the balance sheet date totalled £43.5 million (2005: £51.5m).

At the balance sheet date the Group has unused tax losses of £11.7 million (2005: £12.6m) available for offset against future profits. A deferred tax asset has been recognised in respect of £2.5 million (2005: £3.7m) of such losses. No deferred tax asset has been recognised in respect of the remaining £9.2 million (2005: £8.9m) of losses due to the fact that it is not probable that sufficient taxable profits will be available for the losses to be utilised. The unrecognised tax losses may be carried forward indefinitely.

At the balance sheet date the Group had surplus ACT of £6.5 million available to offset against future tax liabilities. A deferred tax asset of £6.1 million has been recognised in respect of surplus ACT. No deferred tax asset has been recognised in relation to the remaining surplus ACT due to uncertainty as to future ACT capacity.

9. Dividends
Amounts recognised as distributions to equity holders in the year:

	2006 £m	2005 £m
Final dividend for the year ended 30 June 2005 of 3.3p (2004: 2.8p)	**5.9**	5.0
Interim dividend for the year ended 30 June 2006 of 1.6p (2005: 1.5p)	**2.8**	2.6
	8.7	7.6
Proposed final dividend for the year ended 30 June 2006 of 3.5p (2005: 3.3p)	**6.2**	5.9

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included in these financial statements.

10. Earnings per share

Basic earnings per ordinary share is calculated on profit after tax and minority interest, attributable to equity holders of the parent, divided by the weighted average number of ordinary shares in issue during the year in accordance with IAS 33.

	2006	2005
Total earnings (£m)	**18.2**	21.3
Weighted average number of ordinary shares	**177,364,227**	177,122,822
Basic earnings per share (pence)	**10.3**	12.0

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on assumption of conversion of all potentially dilutive ordinary shares. The Company has three categories of potentially dilutive ordinary shares; share options issued whose exercise price is less than the average price of the Company's ordinary shares during the year, share awards with no option price and shares allocated to an approved Save As You Earn scheme.

	2006	2005
Weighted average number of ordinary shares (million)	**177.4**	177.1
Effect of dilutive share options (million)	**0.9**	3.2
Effect of dilutive share awards (million)	**0.2**	–
Effect of dilutive SAYE scheme shares (million)	**2.5**	3.6
	181.0	183.9
Diluted earnings per share (pence)	**10.1**	11.6

Adjusted basic earnings per share applies to earnings excluding exceptional items since the directors consider that this gives additional information as to the underlying performance of the Group.

	2006 £m	2005 £m
Earnings used to calculate basic and diluted EPS	**18.2**	21.3
Exceptional items after tax	**2.6**	2.1
Earnings before exceptional items	**20.8**	23.4
Basic earnings per share before exceptional items (pence)	**11.7**	13.2

11. Goodwill

	2006 Total £m	2005 Total £m
Cost		
1 July 2005/2004	**8.7**	7.6
Recognised on acquisition of subsidiary	**6.3**	1.1
30 June 2006/2005	**15.0**	8.7

The addition in the year relates to the acquisition of the household liquids business from Sanmex International Limited (see note 4).

Goodwill is not amortised but is tested for impairment on a value in use basis at least annually. To test for impairment pre-tax cash flows are discounted for each cash generating unit. The pre-tax discount rate used is based on the Group's 8% post-tax rate adjusted for tax and appropriate risk factors.

Assumptions used to calculate cash flows are based on historic trends adjusted for external market information for specific product categories.

£12.8 million of the goodwill relates to multiple sites in the UK business and the remaining £2.2 million relates to the Western Continental European division and to a single manufacturing site. The value in use is calculated by discounting 5 year pre-tax cash flows based on current budgets plus a growth factor if appropriate.

12. Other intangible assets

	Patents and trade marks £m	Fair value of customer lists on acquisition £m	Total £m
Cost			
1 July 2005	–	–	**–**
Additions	0.4	0.2	**0.6**
30 June 2006	0.4	0.2	**0.6**
Accumulated amortisation			
1 July 2005	–	–	**–**
Provided for in the year	0.2	–	**0.2**
30 June 2006	0.2	–	**0.2**
Net book value			
1 July 2005	–	–	**–**
30 June 2006	0.2	0.2	**0.4**

The "Nova" brand trade mark costs of £0.4 million were capitalised in the year and are being amortised over 3 years. £0.2 million of intangibles relating to the fair value of customer lists in relation to the Sanmex acquisition (see note 4) were capitalised and are being amortised over 3 years. Amortisation costs have been charged through administrative costs.

Notes to the financial statements
continued

13. Property, plant and equipment

	Land and buildings Freehold £m	Land and buildings Leasehold £m	Plant and machinery, computer equipment and motor vehicles £m	Payments on account and assets in the course of construction £m	Total £m
Cost					
At 1 July 2004	69.2	2.1	231.3	4.6	307.2
Exchange adjustments	0.6	–	1.1	–	1.7
Additions	0.9	–	16.5	0.1	17.5
Acquisitions	2.1	–	2.7	0.8	5.6
Disposals	–	–	(3.8)	–	(3.8)
Transfers	–	–	0.5	(0.5)	–
At 30 June 2005	**72.8**	**2.1**	**248.3**	**5.0**	**328.2**
Exchange adjustments	0.9	–	2.3	–	3.2
Additions	0.3	–	17.0	1.8	19.1
Acquisitions	–	–	0.2	–	0.2
Disposals	(2.4)	–	(3.4)	–	(5.8)
Transfers	0.1	–	0.2	(0.3)	–
At 30 June 2006	**71.7**	**2.1**	**264.6**	**6.5**	**344.9**
Depreciation					
At 1 July 2004	(17.1)	(0.5)	(165.5)	–	(183.1)
Exchange adjustments	(0.1)	–	(0.5)	–	(0.6)
Charge for the year	(1.5)	(0.1)	(17.0)	–	(18.6)
Disposals	–	–	3.7	–	3.7
Transfers	–	–	–	–	–
At 30 June 2005	**(18.7)**	**(0.6)**	**(179.3)**	**–**	**(198.6)**
Exchange adjustments	(0.3)	–	(1.5)	–	(1.8)
Charge for the year	(1.5)	(0.1)	(16.2)	–	(17.8)
Disposals	1.0	–	2.9	–	3.9
Transfers	–	–	–	–	–
At 30 June 2006	**(19.5)**	**(0.7)**	**(194.1)**	**–**	**(214.3)**
Net book value					
At 1 July 2004	**52.1**	**1.6**	**65.8**	**4.6**	**124.1**
At 30 June 2005	**54.1**	**1.5**	**69.0**	**5.0**	**129.6**
At 30 June 2006	**52.2**	**1.4**	**70.5**	**6.5**	**130.6**

The net book value of finance leases included within land and buildings above was £3.4 million (2005: £3.7m) and the depreciation charge for the year was £0.2 million (2005: £0.2m).

14. Other non-current assets

Other non-current assets of £0.5 million (2005: £0.5m) consist of prepayments on leases of land in Western Continental Europe.

15. Inventories

	2006 £m	2005 £m
Raw materials, packaging and consumables	**20.3**	17.5
Work in progress	**–**	1.6
Finished goods and goods for resale	**21.0**	22.2
Total inventory	**41.3**	41.3

16. Trade and other receivables

	2006 £m	2005 £m
Trade receivables	**99.7**	100.0
Other receivables	**2.6**	2.7
Forward contract assets	**0.4**	–
Prepayments and accrued income	**3.9**	3.6
Total receivables	**106.6**	106.3

17. Trade and other payables

	2006 £m	2005 £m
Trade payables	**101.0**	101.5
Other taxation and social security	**13.2**	11.7
Other payables	**9.9**	9.7
Accruals and deferred income	**16.4**	20.9
Minority interest put option*	**1.2**	–
Total payables	**141.7**	143.8

*The minority shareholder has a right to exercise a put option and under IAS 32 this is now treated as a liability.

18. Provisions

	Plant closure £m	Leasehold dilapidations £m	Redundancy/ termination £m	Other £m	**Total £m**
At 30 June 2005	1.3	0.9	1.3	1.4	**4.9**
Exchange adjustments	–	–	–	0.1	**0.1**
Provisions made during the year	–	–	3.8	0.5	**4.3**
Provisions utilised during the year	(1.3)	(0.1)	(4.2)	(0.9)	**(6.5)**
Transfers on disposal	–	–	–	(0.5)	**(0.5)**
At 30 June 2006	–	0.8	0.9	0.6	**2.3**
Analysed as:					
Current	–	0.1	0.9	0.3	**1.3**
Non-current	–	0.7	–	0.3	**1.0**
Total	–	0.8	0.9	0.6	**2.3**

Plant closure

The Bampton closure and transfer of its business to Hull was completed in January 2006.

Leasehold dilapidations

£0.3 million leasehold and £0.5 million dilapidation costs relate to an unused warehouse in the UK. The lease expires in December 2008.

Redundancy/termination

In 2005 £1.3 million redundancy costs were provided for all of which were paid during the year. £3.0 million of further redundancy costs were provided for in the current year relating to the UK and Western Continental Europe and £0.8 million of termination costs for the previous Chief Executive, of which £2.9 million has been paid within the current year.

Other

£0.5 million transfer relates to an environmental provision for the Grada site which was disposed of during the year together with any environmental obligation.

The £0.6 million closing balance includes a provision for training cost obligations as a result of new legislation in France.

19. Pensions and other post-employment benefits

The Group operates a number of pension schemes. Within the UK, it operates the Robert McBride Pension Fund, which is a final salary pension scheme, and also defined contribution schemes. Together these schemes cover most of the Group's UK employees. In addition, the Group operates a number of smaller pension and other post-employment schemes in Continental Europe that are devised in accordance with local conditions and practices in the countries concerned. The fair value of the Group's non-UK liabilities has been estimated to be £1.4 million (2005: £1.4m).

Pension and other post-employment benefits on the balance sheet includes the following:

	2006 £m	2005 £m
Deficit on UK defined benefit scheme (see tables below)	**12.3**	11.2
Deficit on Continental Europe post employment schemes	**1.4**	1.4
	13.7	12.6

In line with many other companies, the Directors of McBride have considered the potential uncertainty and long-term cost to the Group of continuing to offer a defined benefit pension scheme. Accordingly, in 2002 the Board closed, to new entrants, the Robert McBride Pension Fund and established a new defined contributions scheme for UK employees.

Payments to defined contribution schemes in 2006 were £0.3 million (2005: £0.5m).

UK defined benefit scheme

A full actuarial valuation of the UK defined benefit scheme was carried out as at 31 March 2006. The results of that valuation have been projected to 30 June 2006 and then updated based on the assumptions disclosed in the table below.

Weighted average assumptions at the end of the period	2006	2005
Discount rate at period end	**5.4%**	5.3%
Expected return on plan assets at period end	**7.2%**	6.1%
Future salary increases	**3.5%**	3.7%
Inflation rate	**3.0%**	2.7%
Future pension increases	**2.8%**	2.5%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, which, due to the timescale covered, may not necessarily be borne out in practice.

Mortality rates used are based upon:
Pre-retirement – AMA92, AF92
Post-retirement – PMA92 and PFA92 (projected to 2006 for pensioners)
These translate, looking simply at the post retirement period, as a 65 year old male is now expected to live to age 84.5 and a 65 year old female is now expected to live to 87.5.

The fair value of the scheme's assets, which are not intended to be realised in the short-term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities were:

Change in benefit obligation	2006 £m	2005 £m
Benefit obligation at beginning of period	**59.0**	49.0
Service cost	**1.9**	1.9
Interest cost	**3.1**	3.0
Plan participants' contributions	**0.6**	0.6
Actuarial loss	**6.7**	5.4
Benefits paid	**(2.1)**	(0.9)
Benefit obligation at end of period	**69.2**	59.0

Change in plan assets	2006 £m	2005 £m
Fair value of plan assets at beginning of period	**47.8**	38.9
Actual return on plan assets	**8.7**	6.7
Employer contribution	**1.9**	2.5
Plan participants' contributions	**0.6**	0.6
Benefits paid	**(2.1)**	(0.9)
Fair value of plan assets at the end of the period	**56.9**	47.8

Opening deficit in scheme	**(11.2)**	(10.1)
Interest cost	**(3.1)**	(3.0)
Service cost	**(1.9)**	(1.9)
Actuarial loss	**(6.7)**	(5.4)
Employer contributions	**1.9**	2.5
Actual return on plan assets	**8.7**	6.7
Closing deficit in scheme recognised	**(12.3)**	(11.2)

Components of net pension cost	2006 £m	2005 £m
Current service costs (recognised in administrative costs)	**1.9**	1.9
Interest on obligation (recognised in financial expense)	**3.1**	3.0
Expected return on plan assets (recognised in financial income)	**(2.8)**	(2.9)
Amounts recognised in income statement	**2.2**	2.0

Experience gains/losses	2006 £m	2005 £m
Actuarial gain on scheme assets	**5.8**	3.8
Experience losses on scheme liabilities	**(6.7)**	(5.4)
Amount recognised in the statement of recognised income and expense	**(0.9)**	(1.6)

Expected employer contributions for 2007 are estimated to be £1.9 million.

Summary of plan assets at the end of the period	2006 £m	2005 £m
Equities	**43.4**	35.8
Bonds	**9.7**	8.5
Property	**2.7**	2.2
Cash	**1.1**	1.3
Total	**56.9**	47.8

Expected rate of return on plan assets	2006	2005
Equities	**7.7%**	6.5%
Bonds	**5.0%**	4.5%
Property	**7.7%**	6.5%
Cash	**4.5%**	4.0%

Notes to the financial statements
continued

19. Pensions and other post-employment benefits (continued)

History of experience gains and losses	2006 £m	2005 £m
Difference between expected and actual return on scheme assets:		
Amount	**5.8**	3.8
Percentage of scheme assets	**10.0%**	8.0%
Experience gains and losses on scheme liabilities:		
Amount	**(1.1)**	(5.4)
Percentage of the present value of scheme liabilities:	**(2.0%)**	(9.0%)
Total amount recognised in statement of income and expense:		
Amount	**(0.9)**	(1.6)
Percentage of the present value of scheme liabilities	**(1.0%)**	(3.0%)

20. Interest bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings.

Non-current liabilities	2006 £m	2005 £m
Unsecured bank loans	**23.9**	19.1
Finance lease liabilities	**1.3**	1.6
	25.2	20.7

Current liabilities	2006 £m	2005 £m
Overdrafts	**2.6**	3.0
Unsecured bank loans	**–**	0.2
Invoice selling facility	**2.2**	0.3
Current portion of finance lease liabilities	**0.4**	0.5
	5.2	4.0
Total borrowings	**30.4**	24.7

Bank loans and overdrafts are repayable as follows:

	2006 £m	2005 £m
Less than one year	**2.6**	3.2
Between one and two years	**0.1**	19.0
Between two and five years	**23.8**	–
More than five years	**–**	0.1
Total repayable	**26.5**	22.3

	2006			2005		
Finance lease liabilities	Minimum payments	Finance charge	Present value	Minimum payments	Finance charge	Present value
Less than one year	**0.5**	**0.1**	**0.4**	0.6	0.1	0.5
Between one and five years	**1.4**	**0.1**	**1.3**	1.8	0.2	1.6
More than five years	**–**	**–**	**–**	–	–	–
	1.9	**0.2**	**1.7**	2.4	0.3	2.1

Material leases relate to land and buildings at Rosporden, France, which expire on 1 January 2011 with the option to buy the assets for a consideration of €1.

21. Financial risk management

Exposures to credit, interest rate and currency risk arise in the normal course of the Group's business. Risk management policies and hedging activities are outlined below. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates and interest rates in accordance with Group policy.

Credit risk

Trading exposures are monitored and managed by operational companies against agreed policy levels. Credit insurance is employed where it is considered to be cost effective. Financial exposures are incurred only with financial institutions appointed as group company bankers and approved at Group level.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Interest rate risk

Hedging

The Group's interest rate risk exposure is primarily to changes in variable interest rates, adverse for increases in Euro rates but favourable for Sterling rates. In the past, the Group has used costless collars to manage its exposure to floating rates on expected borrowing levels and due consideration will be given to do so again when and if projected debt levels rise above current levels.

The Group classifies interest rate swaps as cash flow hedges and states them at fair value.

Foreign currency risk

The Group incurs foreign currency risk on both transaction exposure and translation exposure.

Transaction risk: Incurred and managed at group company level on sales and purchases in any currency foreign to that company. As explained later, exposure to this is relatively limited and is mainly to Euro exposures by UK companies. Group policy is for companies to hedge all such known exposures. Group companies may also hedge highly probable forecast exposures for up to 12 months ahead. Forward exchange contracts are used to hedge these exposures; none of these can have a maturity of more than 1 year after the balance sheet date.

For accounting purposes the Group classifies its forward exchange contracts hedging firm commitments and forecasted transactions as cash flow hedges where they meet the hedge accounting criteria and states them at fair value. The fair value of forward exchange contracts at 1 July 2005 was adjusted against the opening balance of the hedging reserve at that date. The fair value of forward exchange contracts used as hedges of firm commitments and forecasted transactions at 30 June 2006 was £0.4 million and was recognised on balance sheet within non-trade receivables.

During the year, £0.3 million of fair value net loss was recorded in the income statement. No fair value amounts were included in the initial measurement of the acquisition cost or other carrying amount of a non-financial asset or liability (e.g. property, plant and equipment) during the year.

Translation risk: Incurred and identified at group consolidation level as the net non Sterling assets and liabilities of group companies. Group policy is to minimise such risk by fully hedging the net asset currency exposure; foreign currency financial liabilities and rolling forward exchange contracts may be designated as net investment hedges. Euro and Zloty forward contracts were designated as hedges of the Group's investments in its subsidiaries in the Euro zone and Poland. The notional value of these contracts at 30 June 2006 were Euro 70.3 million and Zloty 47.0 million. A foreign exchange loss of £0.7 million was recognised in equity on the contracts.

Foreign currency risk exposure may also arise on financial assets and liabilities. Group policy allows for such currency exposure to be economically hedged with forward contracts.

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of "net financing costs" (see note 6).

21. Financial risk management (continued)

Sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings.

Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

At 30 June 2006 it is estimated that a general increase by one percentage point in interest rates would decrease the Group's profit before tax by approximately £0.3 million.

It is estimated that a general increase of one percentage point in the value of the Pound Sterling against other foreign currencies would decrease the Group's profit before tax by less than £0.1 million for the year ended 30 June 2006. The impact of forward exchange contracts have been included in this calculation.

Interest rate risk management quantification

This table analyses the currency and interest rate composition of the Group's financial assets and liabilities excluding short-term trade receivables and payables as they are not normally subject to any interest rate risk as they are non-interest bearing, except in certain instances where the terms of payment are not adhered to.

	Period in which interest rate reprices	Polish Zloty £m	Euro £m	Sterling £m	Total carrying value 2006 £m
Financial liabilities:					
Fixed rate	Less than one year	–	(0.3)	(0.1)	(0.4)
	Between one and two years	–	(0.5)	–	(0.5)
	Between two and five years	–	(0.8)	–	(0.8)
Floating rate	Less than 6 months	–	(21.0)	(7.6)	(28.6)
	Between one and two years	–	(0.1)	–	(0.1)
Non interest bearing		–	–	–	–
		–	(22.7)	(7.7)	(30.4)
Currency swaps	Less than 6 months	–	(31.7)	31.7	–
Total financial liabilities		–	(54.4)	24.0	(30.4)
Financial assets:					
Floating rate		–	–	–	–
Non interest bearing		0.6	0.6	0.1	1.3
Total financial assets		0.6	0.6	0.1	1.3
Net financial (liabilities)/assets		0.6	(53.8)	24.1	(29.1)

Floating rate financial liabilities bear interest based on Base Rates and short-term interbank rates (predominantly LIBOR, with some EURIBOR and some EONIA).

Fixed rate borrowings relate to finance leases which have weighted average interest rates between 5% and 7%.

The currency swaps reflect the currency in which interest is borne.

Excess Sterling cash generated in the UK is recycled internally to the European operations to repay external borrowing and the currency and interest rate effects are corrected by currency swaps.

Liquidity risk management

The Group's policy is to ensure that it has facilities sufficient to cover its projected level of core funding requirements plus intra month working capital needs and a reasonable level of unexpected contingencies for at least 12 months ahead at reporting dates. The Group maintains sizeable levels of uncommitted facilities to enhance day to day liquidity but it does not rely on any of these in the above calculation. The maturity profile of the Group's financial liabilities, excluding short-term creditors such as trade payables and accruals, which form part of the Group's day to day operating cycle, is disclosed in note 20.

The Group has a single committed facility. The amount unutilised at the year end was £66.3 million and the facility has a maturity date in 2009.

Fair value disclosure

Fair value of financial assets and liabilities	2006 Book value £m	2006 Fair value £m
Bank loans, overdrafts and other loans	(28.7)	(28.7)
Finance lease liabilities	(1.7)	(1.7)
Total gross borrowings	(30.4)	(30.4)
Cash and cash equivalents	1.3	1.3
Total net borrowings	(29.1)	(29.1)
Forward exchange contracts	0.4	0.4
Total	(28.7)	(28.7)

The fair values of the forward contracts are estimated from market forward exchange rates on 30 June 2006. All contracts mature within 1 year.

The fair values of borrowings are reported at book value as they are all at short-term to reset.

Reconciliation of financial instruments as if IAS 39 was applied at 1 July 2004

	Note	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Put option on minority shareholding	a	–	(1.2)	(1.2)
Fair value derivatives	b	–	(0.3)	(0.3)
		–	(1.5)	(1.5)

Notes to the reconciliation of financial instruments as if IAS 39 was applied at 1 July 2004:

a) Under UK GAAP, the Group recorded the put option as a contingent liability. In accordance with IFRSs, it should be recognised on balance sheet.

b) Under UK GAAP, the Group did not recognise derivatives. In accordance with IFRSs derivatives should be recognised at fair value.

The effect is to decrease cash flow hedge reserve by £0.3 million and a reserve for minority interests by £1.2 million and increase liabilities by £1.5 million at 1 July 2004.

Notional value of forward contracts	2006 £m
Euros purchased	15.8
USDs purchased	0.4
Euros sold	(48.6)
Zlotys sold	(8.0)
	(40.4)

Notes to the financial statements continued

21. Financial risk management (continued)

Currency risk management – monetary assets and liabilities

The Group's buying and selling activities occur mainly within the same currency zones, so there is relatively little trading exposure. The Group's policy is to cover any such currency exposure. The table below is required to show net exposure by business area. The Group's policy is to endeavour to cover exposures in the business area in which they arise. However, exceptions are permitted where it is commercially advantageous to differ, e.g. to fund a subsidiary in a low interest rate non functional currency, as for Poland below, provided that the net exposure is covered by non-monetary means elsewhere, as can be seen in the net asset exposure table further below.

The net monetary assets/(liabilities) that are not denominated in their functional currency are shown below.

Gains and losses arising from these exposures will be recognised in the income statement.

2006	Sterling £m	Euro £m	Polish Zloty £m	Total £m
United Kingdom	–	–	–	–
Euro-zone countries	(0.3)	–	–	(0.3)
Poland	(0.3)	(0.1)	–	(0.4)
Other	(0.5)	(0.2)	(0.1)	(0.8)
Total	(1.1)	(0.3)	(0.1)	(1.5)

Currency risk management – net asset exposure

As indicated on page 29, it is the objective of the Group to minimise currency risk by hedging its currency exposure.

The Group operates significant trading assets in Continental Europe, denominated in Euros and other European currencies. Although trading activities take place mainly within each currency area, the Group has significant exposure to movements in exchange rates on net assets. In order to hedge these exposures the Group arranges foreign currency funding, both internal and external, and uses forward contracts to hedge the remaining net exposure to foreign currency assets. The net asset exposure and the effect of the rolling forward contracts is shown below:

Impact of forward contracts on net assets currency exposure

	2006		
	Net assets before hedging £m	Forward contracts £m	Net assets after hedging £m
Sterling	47.1	56.6	103.7
Eurozone currencies	48.8	(48.6)	0.2
Poland and other	8.0	(8.0)	–
Total net assets	103.9	–	103.9

Comparative information for 2005

This is provided on the previously published UK GAAP.

Funding

Other than those noted in the fair value disclosure, there are no differences between current and book values of financial instruments held by the Group at the year end.

Short-term debtors and creditors

Short-term debtors and creditors have been excluded where permitted by FRS 13.

Foreign exchange

Gains and losses arising from these exposures will be recognised in the profit and loss account.

The amounts in the table take into account the effect of forward contracts used to manage these exposures.

Interest rate risk management

This table analyses the currency and interest rate composition of the Group's financial assets and liabilities excluding short-term trade debtors and creditors.

	Polish Zloty £m	Euro £m	Sterling £m	Total carrying value 2005 £m
Financial liabilities:				
Fixed rate	–	(1.9)	(0.2)	(2.1)
Floating rate	(0.3)	(21.4)	(0.9)	(22.6)
Non interest bearing	–	–	–	–
	(0.3)	(23.3)	(1.1)	(24.7)
Currency swaps	–	(17.8)	17.8	–
Total financial liabilities	(0.3)	(41.1)	16.7	(24.7)
Financial assets:				
Floating rate	–	–	–	–
Non interest bearing	0.1	0.2	–	0.3
Total financial assets	0.1	0.2	–	0.3
Net financial (liabilities)/assets	(0.2)	(40.9)	16.7	(24.4)

Floating rate financial liabilities bear interest based on short-term interbank rates (predominantly LIBOR, with some EURIBOR and Base Rates).

Excess Sterling cash generated in the UK is recycled internally to the European operations to repay external borrowing and the currency and interest rate effects are corrected by currency swaps.

To manage the interest rate risk exposure to Euro borrowings the Group used interest rate costless collars that had floors of 2.0% and caps of 2.72% – 2.95% (Euro 3.0 million at 1 July 2004, all matured by 30 June 2005).

Liquidity risk management

The maturity profile of the Group's financial liabilities, excluding short-term creditors such as trade creditors and accruals, is:

Maturity	Total carrying value 2005 £m
Less than one year	(3.7)
One to five years	(20.6)
More than five years	(0.1)
Total	(24.4)

The Group has a single committed facility. The amounts unutilised and maturity of the facility are analysed below:

Committed undrawn facilities	2005 £m
Expiring less than one year	5.0
One to two years	–
More than two years	41.1
Total	46.1

21. Financial risk management (continued)

Fair value disclosure

Fair value of financial assets and liabilities	2005 Book value £m	2005 Fair value £m
Bank loans, overdrafts and other loans	(22.6)	(22.6)
Finance lease liabilities	(2.1)	(2.1)
Total gross borrowings	(24.7)	(24.7)
Cash at bank and in hand	0.3	0.3
Total net borrowings	(24.4)	(24.4)
Forward exchange contracts	(0.3)	(0.1)
Total	(24.7)	(24.5)

The fair values of the forward contracts are estimated from market forward exchange rates on 30 June 2005.

The fair values of borrowings are reported at book value as they are all at short-term to reset.

Currency risk management – monetary assets and liabilities

The Group's buying and selling activities occur mainly within the same currency zones, so there is relatively little trading exposure. The Group's policy is to cover all such currency exposure. The table below is required to show net exposure by business area. The Group's policy is to endeavour to cover exposures in the business area in which they arise. However, exceptions are permitted where it is commercially advantageous to differ, e.g. to fund a subsidiary in a low interest rate non functional currency, as for Poland below, provided that the net exposure is covered by non-monetary means elsewhere, as can be seen in the net asset exposure table further below.

The net monetary assets/(liabilities) that are not denominated in their functional currency are shown below. Gains and losses arising from these exposures will be recognised in the profit and loss account.

2005	Sterling £m	Euro £m	Polish Zloty £m	Total £m
United Kingdom	–	–	–	–
Euro-zone countries	(0.8)	–	–	(0.8)
Poland	(0.1)	(5.1)	–	(5.2)
Other	–	(0.2)	–	(0.2)
Total	(0.9)	(5.3)	–	(6.2)

Currency risk management – net asset exposure

As indicated on page 29, it is the objective of the Group to minimise currency risk by hedging its currency exposure. The Group operates significant trading assets in continental Europe, denominated in Euros and other European currencies. Although trading activities take place mainly within each currency area, the Group has significant exposure to movements in exchange rates on net assets. In order to hedge these exposures the Group arranges foreign currency funding, both internal and external, and uses forward contracts to hedge the remaining net exposure to foreign currency assets.The net asset exposure and the effect of the rolling forward contracts is shown below.

Impact of forward contracts on net assets

2005	Net assets before hedging £m	Forward contracts £m	Net assets after hedging £m
Sterling	37.2	59.4	96.6
Eurozone currencies	53.2	(53.1)	0.1
Other	6.9	(6.3)	0.6
Total net assets	97.3	–	97.3

Gains and losses on hedges	Gains £m	Losses £m	Total net gain/losses £m
Unrecognised gains and losses in 2004	0.1	–	0.1
Gains and losses arising in previous years now recognised in June 2005	0.1	–	0.1
Gains and losses arising in previous years not recognised in June 2005	–	–	–
Unrecognised gains and losses in 2005	0.2	(0.3)	(0.1)
Of which gains and losses to be recognised in 2006	0.2	(0.3)	(0.1)
After 2006	–	–	–

22. Share capital

Ordinary shares of 10 pence each	Authorised Number	Authorised £m	Allotted, called up and fully paid Number	Allotted, called up and fully paid £m
At 1 July 2005	500,000,000	50.0	176,716,497	17.7
Shares issued	–	–	1,479,737	0.2
Shares repurchased	–	–	(1,600,000)	(0.2)
At 30 June 2006	500,000,000	50.0	176,596,234	17.7

1,479,737 ordinary 10p shares were issued out of Treasury during the year for a consideration of £658,541 in order to satisfy the exercise of employee share options. Additionally 1,600,000 ordinary shares were repurchased by the Company, 650,000 for cancellation and 950,000 (£95,000 nominal value) to be held as Treasury Shares for the expected future exercise of other share options.

23. Employee share schemes

Share options

The table below lists out Share Option Schemes existing between 30 June 2005 and 30 June 2006:

Option type	2005 Option number	Options exercised during year	Weighted average share price (£)	Options lapsed during year	2006 Option number	2006 Exercisable number	Option exercise price (£)	Earliest exercise date	Expiry date
1995 Executive Share Option Scheme	1,063,417	–	–	(1,063,417)	–	–	1.88	6/7/1998	5/7/2005
1995 International Executive Share Option Scheme	984,022	–	–	(984,022)	–	–	1.88	6/7/1998	5/7/2005
1995 International Executive Share Option Scheme	829,059	–	–	–	829,059	829,059	0.585	24/9/2005	24/9/2012
2002 Unapproved Discretionary Share Option Scheme	701,389	–	–	–	701,389	701,389	0.72	16/12/2005	16/12/2012
2003 Savings Related Share Option Scheme	1,457,270	(1,452,148)	1.52	(5,122)	–	–	0.445	1/8/2005	31/1/2006
2003 Savings Related Share Option Scheme	3,734,608	(27,589)*	1.54	(265,319)	3,441,700	–	0.445	1/8/2007	31/1/2008
	8,769,765	(1,479,737)		(2,317,880)	4,972,148	1,530,448			

*Scheme rules allow exercise at an earlier date than stated above in certain circumstances for example redundancy, retirement or death in service.

Please refer to page 47 for further details on the options above.

McBride Long-Term Incentive Plan (LTIP)

During the year the Group introduced a performance based Share Award Plan, with a three year vesting period, for senior executives. The percentage of shares vesting is dependent on the performance of the Group against the following criteria:

Total shareholder return (TSR): 50% of the award relates to comparing the TSR of McBride shares with the TSR of the companies in the FTSE mid-250 index.
Earning per share (EPS): 50% of the award relates to comparing the EPS growth of the Group with movements in the retail price index .

Fair value of awards granted in 2006

The following assumptions were used to determine the fair value of the LTIPs using a variant of the Monte Carlo pricing model:

Risk-free interest rate	4.3%
McBride share price on grant date (pence)	155.1
Index level	8,476
Dividend yield on stock	3.2%
Dividend yield on index	2.4%
Volatility for stock	26.0%
Volatility for index	11.0%
Expected life of LTIPs	3 years

	No. Awards Granted	Weighted Fair value (pence)
At 30 June 2006 – outstanding and not exercisable	444,442	103.9

The Company recognised total expenses of £46,000 relating to equity-settled share-based transactions in 2006 (2005: nil).

24. Reconciliation of movement in equity and reserves

	Issued share capital £m	Share premium account £m	Cash flow hedge reserve £m	Translation reserve £m	Other reserves £m	Retained earnings £m	Total £m	Minority interest £m	Total equity and reserves £m
Balance at 1 July 2004	17.8	139.4	–	–	–	(64.5)	92.7	–	92.7
Profit for the year	–	–	–	–	–	21.3	21.3	0.1	21.4
Own shares acquired and held as treasury	(0.1)	–	–	–	–	(2.3)	(2.4)	–	(2.4)
Own shares acquired and cancelled	(0.5)	–	–	–	0.5	(6.9)	(6.9)	–	(6.9)
Shares issued to satisfy employee share option exercises	0.5	2.4	–	–	–	–	2.9	–	2.9
Foreign exchange translation differences	–	–	–	(0.2)	–	–	(0.2)	0.1	(0.1)
Actuarial loss net of deferred tax	–	–	–	–	–	(1.1)	(1.1)	–	(1.1)
Equity dividends	–	–	–	–	–	(7.6)	(7.6)	–	(7.6)
Tax on share options taken directly to equity	–	–	–	–	–	(0.8)	(0.8)	–	(0.8)
At 30 June 2005	17.7	141.8	–	(0.2)	0.5	(61.9)	97.9	0.2	98.1
Adoption of IAS 32 and IAS 39	–	–	(0.3)	–	(1.2)	–	(1.5)	–	(1.5)
At 1 July 2005	17.7	141.8	(0.3)	(0.2)	(0.7)	(61.9)	96.4	0.2	96.6
Profit for the year	–	–	–	–	–	18.2	18.2	0.2	18.4
Own shares acquired and held as treasury	(0.1)	–	–	–	–	(1.5)	(1.6)	–	(1.6)
Treasury shares issued to satisfy employee share option exercise	0.2	–	–	–	–	0.4	0.6	–	0.6
Own shares acquired and cancelled	(0.1)	–	–	–	–	(1.0)	(1.1)	–	(1.1)
Movement in cash flow hedge	–	–	0.4	–	–	–	0.4	–	0.4
Foreign exchange translation differences	–	–	–	0.7	–	–	0.7	–	0.7
Net loss on hedge of net investment in foreign subsidiaries	–	–	–	(0.7)	–	–	(0.7)	–	(0.7)
Actuarial loss net of deferred tax	–	–	–	–	–	(0.6)	(0.6)	–	(0.6)
Equity dividends	–	–	–	–	–	(8.7)	(8.7)	–	(8.7)
Tax on share options taken directly to equity	–	–	–	–	–	(0.1)	(0.1)	–	(0.1)
At 30 June 2006	17.7	141.8	0.1	(0.2)	(0.7)	(55.2)	103.5	0.4	103.9

The Group has taken the option to defer implementation of IAS 32/39 Financial Instruments until the year ended 30 June 2006.

Therefore as at 1 July 2005, the Group recognised in equity derivative contracts used for hedge accounting purposes that were previously not recognised on the balance sheet.

Number of Treasury Shares held at 30 June 2006 were 1,022,852 (2005: 1,525,000).

Cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to transactions that have not occurred.

Translation reserve includes cumulative exchange differences arising from the translation of foreign subsidiaries into sterling.

Other reserve includes the capital redemption reserve, and a reserve relating to the put option on the minority interest holding in Intersilesia as created on adoption of IAS 32 which is now treated as a liability (see note 17).

Notes to the financial statements
continued

25. Employee numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	2006	Restated 2005
Operations	**3,731**	3,703
Sales and marketing	**264**	265
Finance and administration	**532**	611
Total full-time equivalent employees	**4,527**	4,579

	2006 £m	Restated 2005 £m
The aggregate payroll costs were:		
Wages and salaries	**88.7**	89.7
Social security costs	**18.0**	17.7
Pension costs	**2.2**	2.4
Total payroll costs	**108.9**	109.8

2005 employee numbers and costs have been restated to include temporary and seasonal staff as the directors believe this provides a more appropriate analysis of the Group's utilisation of human resources.

Pension costs include the current service costs for defined benefit schemes and payments to defined contribution schemes but exclude defined benefit scheme costs included within net financing costs.

There are no salaried employees of the Company.

26. Net debt

	2005 £m	Cash flow £m	Non cash movements £m	Exchange movement £m	2006 £m
Cash in hand	0.3	1.0	–	–	**1.3**
Overdrafts	(3.0)	0.4	–	–	**(2.6)**
	(2.7)	1.4	–	–	**(1.3)**
Debt: Due after one year	(19.1)	(4.3)	–	(0.5)	**(23.9)**
Debt: Due within one year	(0.5)	(1.7)	–	–	**(2.2)**
Finance leases	(2.1)	0.4	–	–	**(1.7)**
Net cash/(debt)	(24.4)	(4.2)	–	(0.5)	**(29.1)**

	2004 £m	Cash flow £m	Non cash movements £m	Exchange movement £m	2005 £m
Cash in hand	0.2	0.2	–	(0.1)	0.3
Overdrafts	(2.0)	(1.0)	–	–	(3.0)
	(1.8)	(0.8)	–	(0.1)	(2.7)
Debt: Due after one year	(26.3)	7.5	–	(0.3)	(19.1)
Debt: Due within one year	(1.2)	0.7	–	–	(0.5)
Finance leases	(2.1)	0.4	(0.4)	–	(2.1)
Net cash/(debt)	(31.4)	7.8	(0.4)	(0.4)	(24.4)

27. Commitments

	2006 £m	2005 £m
Capital expenditure		
Contracted but not provided	**3.2**	2.0

Operating leases

Total payments under operating leases analysed over periods when the leases expire are as follows:

Total operating leases	2006 £m	2005 £m
Within one year	**1.8**	1.2
In the second to fifth years inclusive	**4.8**	2.0
	6.6	3.2

Leases of land and building which expire	2006 £m	2005 £m
Within one year	**0.1**	0.1
In the second to fifth years inclusive	**–**	–
	0.1	0.1

Other leases which expire	2006 £m	2005 £m
Within one year	**1.7**	1.1
In the second to fifth years inclusive	**4.8**	2.0
	6.5	3.1

Other operating leases relate mainly to plant and equipment.

28. Transition to IFRS

As stated in note 1, these are the Group's first consolidated financial statements prepared in accordance with IFRS as adopted by the European Union. The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005 and in the preparation of an opening IFRS balance sheet at 1 July 2004 (the Group's date of transition), but comparatives have not been restated for IAS 32/39.

In preparing the opening IFRS balance sheet the Group has adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP. An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position and financial performance is set out below. There has been no impact on cash flow.

IFRS adjustments

• *Employee benefits (IAS 19)*

Under UK GAAP the Group applied the provisions of SSAP 24 and also provided detailed disclosure under FRS 17 in accounting for defined benefit pension schemes. Under IFRS, the Group's opening balance sheet at 1 July 2004 reflects the assets and liabilities of its UK defined benefit scheme, with a total gross deficit of £10.2 million before deferred tax. As from the date of transition the Group has chosen to apply the amendment to IAS 19 which allows actuarial gains and losses to be recognised immediately in the statement of total recognised income and expense i.e. the actuarial gains and losses will be taken directly to reserves.

As at 30 June 2005 the total gross deficit was £12.6 million. The year ended 30 June 2005 income statement adjustment was a £0.1 million charge to net financing costs.

28. Transition to IFRS (continued)

• *Employee benefits (IAS 19) – holiday pay accrual*
This standard requires employee benefits such as holiday pay to be accrued. The additional accrual required is £0.3 million.

• *Goodwill arising on business combinations (IFRS 3)*
Under IFRS 3, goodwill is no longer amortised but instead is subject to annual impairment testing. Consequently, the opening IFRS goodwill balance as at 30 June 2004 and goodwill acquired on acquisition during the year ended 30 June 2005 have been tested for impairment. No impairment was necessary. The £0.9 million UK GAAP goodwill amortisation for the year ended 30 June 2005 is written back for IFRS.

• *Recognition of dividends (IAS 10 Events after the balance sheet date)*
Under UK GAAP dividends are recognised in the period to which they relate. IFRS however requires that dividends declared after the balance sheet date should not be recognised as a liability until approved by shareholders. As a result the proposed final dividend of £5.9 million declared in October 2005 has not been accrued in the 30 June 2005 balance sheet.

• *Share–based payments (IFRS 2)*
The standard requires that a charge be recognised in the income statement for the benefit an employee receives as a consequence of an employee share scheme and the charge should be spread over the scheme performance period. This standard applies to options granted after 7 November 2002. The amounts involved are less than £0.1 million for the year ended 30 June 2005.

• *Income taxes (IAS 12)*
Requires that a deferred tax asset be recognised for share option schemes not fully vested on the basis of the excess of the market price over the option exercise price at the balance sheet date. The deferred tax adjustment at 30 June 2005 of £2.0 million is recognised in equity.

• *Leases (IAS 17)*
The standard states that the land element of a land and building lease, which has been paid in advance, should be reclassified as a long-term prepayment where title is not expected to pass. A long leasehold of £0.5 million has been reclassified from property, plant and equipment into other non-current assets.

IFRS Consolidated Balance Sheet Restatement as at 1 July 2004 (opening balance sheet for IFRS)

	UK GAAP £m	Reclassification £m	Land lease £m	Employee benefits £m	Deferred tax share options £m	Dividend £m	Holiday accrual £m	IFRS £m
Non-current assets								
Intangible assets	7.6	–	–	–	–	–	–	7.6
Property, plant and equipment	124.6	–	(0.5)	–	–	–	–	124.1
Other non-current assets	–	–	0.5	–	–	–	–	0.5
Deferred tax	–	2.4	–	2.8	2.8	–	0.1	8.1
	132.2	2.4	–	2.8	2.8	–	0.1	140.3
Current assets								
Inventories	38.8	–	–	–	–	–	–	38.8
Trade and other receivables	114.9	–	–	–	–	–	–	114.9
Cash and cash equivalents	0.2	–	–	–	–	–	–	0.2
	153.9	–	–	–	–	–	–	153.9
Total assets	286.1	2.4	–	2.8	2.8	–	0.1	294.2
Current liabilities								
Interest bearing loans and borrowings	3.5	–	–	–	–	–	–	3.5
Trade and other payables	146.3	–	–	(0.8)	–	(5.0)	0.3	140.8
Current tax payable	1.2	–	–	–	–	–	–	1.2
Provisions	–	7.6	–	–	–	–	–	7.6
	151.0	7.6	–	(0.8)	–	(5.0)	0.3	153.1
Non-current liabilities								
Interest bearing loans and borrowings	28.1	–	–	–	–	–	–	28.1
Pensions and other post-employment benefits	–	–	–	10.2	–	–	–	10.2
Provisions	9.3	(7.6)	–	–	–	–	–	1.7
Deferred tax	4.8	2.4	–	–	–	–	–	7.2
Net investment in joint venture	1.2	–	–	–	–	–	–	1.2
	43.4	(5.2)	–	10.2	–	–	–	48.4
Total liabilities	194.4	2.4	–	9.4	–	(5.0)	0.3	201.5
Net assets	91.7	–	–	(6.6)	2.8	5.0	(0.2)	92.7
Equity								
Issued share capital	17.8	–	–	–	–	–	–	17.8
Share premium account	139.4	–	–	–	–	–	–	139.4
Retained earnings	(65.5)	–	–	(6.6)	2.8	5.0	(0.2)	(64.5)
Total equity	91.7	–	–	(6.6)	2.8	5.0	(0.2)	92.7

Notes to the financial statements
continued

28. Transition to IFRS (continued)
IFRS Consolidated Income Statement Restatement for the year ended 30 June 2005

	UK GAAP £m	Goodwill amortisation £m	Joint venture reallocation £m	Employee benefits £m	IFRS £m
Revenue	537.1	–	–	–	537.1
Cost of sales	(348.4)	–	–	–	(348.4)
Gross profit	188.7	–	–	–	188.7
Distribution costs	(34.0)	–	–	–	(34.0)
Administrative costs	(123.6)	0.9	–	–	(122.7)
Share of joint venture's operating profit	0.1	–	(0.1)	–	–
Total operating profit	31.2	0.9	(0.1)	–	32.0
Financial income	1.4	–	0.1	2.9	4.4
Financial expenses	(2.8)	–	–	(3.0)	(5.8)
Net financing costs	(1.4)	–	0.1	(0.1)	(1.4)
Profit before tax	29.8	0.9	–	(0.1)	30.6
Taxation	(9.2)	–	–	–	(9.2)
Profit for the year	20.6	0.9	–	(0.1)	21.4
Attributable to:					
Equity holders of the parent	20.5	0.9	–	(0.1)	21.3
Minority interest	0.1	–	–	–	0.1
Profit for the year	20.6	0.9	–	(0.1)	21.4

28. Transition to IFRS (continued)
IFRS Consolidated Balance Sheet Restatement as at 30 June 2005

	UK GAAP £m	Reclassification £m	Land lease £m	Goodwill amortisation £m	Employee benefits £m	Deferred tax share options £m	Dividend £m	Holiday accrual £m	IFRS £m
Non-current assets									
Intangible assets	7.8	–	–	0.9	–	–	–	–	8.7
Property, plant and equipment	130.1	–	(0.5)	–	–	–	–	–	129.6
Other non-current assets	–	–	0.5	–	–	–	–	–	0.5
Deferred tax	–	0.5	–	–	3.4	2.0	–	0.1	6.0
	137.9	0.5	–	0.9	3.4	2.0	–	0.1	144.8
Current assets									
Inventories	41.3	–	–	–	–	–	–	–	41.3
Trade and other receivables	106.3	–	–	–	–	–	–	–	106.3
Cash and cash equivalents	0.3	–	–	–	–	–	–	–	0.3
	147.9	–	–	–	–	–	–	–	147.9
Total assets	285.8	0.5	–	0.9	3.4	2.0	–	0.1	292.7
Current liabilities									
Interest bearing loans and borrowings	4.0	–	–	–	–	–	–	–	4.0
Trade and other payables	149.4	–	–	–	–	–	(5.9)	0.3	143.8
Current tax payable	2.0	–	–	–	–	–	–	–	2.0
Provisions	–	4.1	–	–	–	–	–	–	4.1
	155.4	4.1	–	–	–	–	(5.9)	0.3	153.9
Non-current liabilities									
Interest bearing loans and borrowings	20.7	–	–	–	–	–	–	–	20.7
Pensions and other post-employment benefits	–	1.4	–	–	11.2	–	–	–	12.6
Provisions	6.3	(5.5)	–	–	–	–	–	–	0.8
Deferred tax	6.1	0.5	–	–	–	–		–	6.6
	33.1	(3.6)	–	–	11.2	–	–	–	40.7
Total liabilities	188.5	0.5	–	–	11..2	–	(5.9)	0.3	194.6
Net assets	97.3	–	–	0.9	(7.8)	2.0	5.9	(0..2)	98.1
Equity									
Issued share capital	17.7	–	–	–	–	–	–	–	17.7
Share premium account	141.8	–	–	–	–	–	–	–	141.8
Other reserves	0.6	(0.3)	–	–	–	–	–	–	0.3
Retained earnings	(63.0)	0.3	–	0.9	(7.8)	2.0	5.9	(0.2)	(61.9)
Total equity attributable to equity holders of the parent	97.1	–	–	0.9	(7.8)	2.0	5.9	(0.2)	97.9
Minority interest	0.2	–	–	–	–	–	–	–	0.2
Total equity and reserves	97.3	–	–	0.9	(7.8)	2.0	5.9	(0.2)	98.1

29. Subsequent event
On 19 July 2006 the Group agreed to purchase the household liquids business of Coventry Chemicals Limited for £1.6 million plus inventory. As with the Sanmex acquisition, production will be transferred to the Group's existing facilities.

Company balance sheet at 30 June 2006

	Note	2006 £m	2005 £m Restated
Fixed assets			
Tangible assets	3	**0.1**	0.1
Investments	4	**165.0**	164.8
		165.1	164.9
Current assets			
Debtors	5	**104.6**	54.3
Total assets		**269.7**	219.2
Current liabilities			
Creditors: amounts falling due within one year	6	**(89.0)**	(45.5)
Total liabilities		**(89.0)**	(45.5)
Net assets		**180.7**	173.7
Equity			
Called up share capital	7	**17.7**	17.7
Share premium account	8	**141.8**	141.8
Capital redemption reserve	8	**0.5**	0.5
Profit and loss account	8	**20.7**	13.7
Shareholders' funds		**180.7**	173.7

These financial statements were approved by the Board of Directors on 6 September 2006 and were signed on its behalf by:

M W Roberts
R J Beveridge
Directors

Notes to the Company financial statements

1. Significant accounting policies
Basis of accounting
The separate financial statements of the Company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

Under Financial Reporting Standard 1 the Company is exempt from the preparation of a cash flow statement on the grounds that it is included within the consolidated accounts.

Under Financial Reporting Standard 8 "Related Party Disclosures" ("FRS 8") the Company is exempt from disclosing related party transactions with entities that are part of the Group.

The principal accounting policies are summarised below. During the year, a number of new Financial Reporting Standards ("FRSs") were issued. The principal new FRSs affecting the Company are:

- FRS 21 'Events after the balance sheet date': This standard sets out amended requirements for accounting for events after the balance sheet date. Following the introduction of this standard, dividends are only recognised at the balance sheet date if they are declared before that date. The final dividend for 30 June 2005 was declared in October 2005, therefore the dividend charge recognised in the profit and loss account and the dividend creditor recognised in the balance sheet have been reversed. This resulted in an increase in reserves of £5.9 million at 30 June 2005.

- FRS 25 supersedes FRS 13 and substantially amends FRS 4 'Capital instruments'. This standard is effective for the Company from 30 June 2005. However, as the consolidated financial statements have been prepared under the IFRS equivalent standard (IAS 32), the parent Company is exempt from the disclosure requirements.

- FRS 26 applies to all listed entities for periods beginning on or after 1 January 2005 and prescribes new accounting rules relating to financial instruments and hedge accounting. This standard has been adopted in full in these financial statements and its requirements applied prospectively from 1 July 2005.

Investments
Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment.

For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

Tangible fixed assets
Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal installments over their estimated useful economic lives as follows:

Computer equipment (including software) – 3 to 5 years.

Foreign exchange
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases
Operating leases are charged to the profit and loss account on a straight line basis over the life of the operating lease.

2. Profit for the year
As permitted by section 230 of the Companies Act 1985 the Company has elected not to present its own profit and loss account for the year. McBride plc reported a profit for the financial year ended 30 June 2006 of £17.7 million (2005: £16.4m).

Audit services for the Company total £0.1 million (2005: £0.1m). Tax and other services for the Company total £0.1 million (2005: £0.1m).

The Company had no employees for the year ended 30 June 2006 (2005: nil).

3. Tangible fixed assets
There was no significant movement in the Company's tangible fixed assets of £0.1 million at 30 June 2006 (2005: £0.1m) relating to computer equipment.

4. Investments

	£m
Shares in subsidiary undertakings at cost	
At 30 June 2005	164.8
Exchange on Euro investment	0.2
At 30 June 2006	165.0

The investment in McBride Euro Finance Limited is Euro denominated and has been financed by an equivalent Euro loan. Both the loan and investment are revalued.

Set out below are the principal subsidiary undertakings of the Company whose results are included in the consolidated financial statements at 30 June 2006. All subsidiaries incorporated in Great Britain are registered in England and Wales. The country of incorporation is also the principal country of operation.

The main business activity of the operating subsidiaries involves the manufacture and distribution of Household and Personal Care products. A full list of subsidiaries is filed with the Registrar of Companies.

Company	Ownership	Country of incorporation
Subsidiaries	(ordinary shares)	
Robert McBride Ltd*	100%	Great Britain
McBride S.A.S.	100%	France
McBride S.A.	100%	Belgium
McBride S.p.a.	100%	Italy
McBride S.A.U.	100%	Spain
McBride B.V.	100%	Netherlands
Problanc S.A.S.	100%	France
Intersilesia McBride Polska Sp. Z.o.o.	85%	Poland
Vitherm S.A.S.	100%	France
McBride Hungary Kft	100%	Hungary
McBride S.r.o.	100%	Czech Republic
McBride Euro Finance Ltd*	100%	Great Britain
Aerosol Products Ltd	100%	Great Britain
OOO McBride Russia	100%	Russia
Investment companies		
McBride Holdings Ltd*	100%	Great Britain
McBride CE Holdings Ltd	100%	Great Britain

*These companies are wholly owned subsidiary undertakings of McBride plc (the 'Company') apart from Robert McBride Ltd, which is a 57.7% owned subsidiary undertaking of the Company.

Notes to the Company financial statements
continued

5. Debtors: amounts falling due within one year

	2006 £m	2005 £m
Amounts owed by Group undertakings	**103.0**	52.5
Other debtors	**0.7**	1.2
Prepayments and accrued income	**0.9**	0.6
Total debtors	**104.6**	54.3

6. Creditors: amounts falling due within one year

	2006 £m	Restated 2005 £m
Bank overdrafts (unsecured)	**0.1**	0.1
Bank loans	**3.0**	–
Other creditors	**0.1**	0.5
Amounts owed to Group undertakings	**85.2**	42.8
Accruals and deferred income	**0.6**	2.1
Total creditors	**89.0**	45.5

7. Called up share capital

	Authorised		Allotted, called up and fully paid	
	Number	£m	Number	£m
Ordinary shares of 10 pence each				
At 1 July 2005	500,000,000	50.0	176,716,497	17.7
Share issues	–	–	1,479,737	0.2
Share repurchases	–	–	(1,600,000)	(0.2)
At 30 June 2006	500,000,000	50.0	176,596,234	17.7

8. Movement on reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m
At 30 June 2005 as previously stated	141.8	0.5	7.8
Adoption of FRS 21	–	–	5.9
At 1 July 2005 as restated	141.8	0.5	13.7
Retained profit for the year	–	–	9.1
Share issues	–	–	0.4
Share repurchases – for cancellation	–	–	(1.0)
– held as treasury shares	–	–	(1.5)
At 30 June 2006	141.8	0.5	20.7

Own shares (held as Treasury shares)

	Number	£m
Ordinary shares of 10 pence each		
At 30 June 2005	1,525,000	0.1
Share issues	(1,452,148)	(0.1)
Share repurchases	950,000	0.1
At 30 June 2006	1,022,852	0.1

Own shares are included within the profit and loss account reserve.

9. Contingent liabilities

The Company has not adopted amendments to FRS 26 in relation to financial guarantee contracts which apply to periods commencing on or after 1 January 2006.

When the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

10. Share-based payments

The Company has no employees. Shares in the Company have been granted to employees of the Group as part of the share-based payment plan and recharged to the employing company.

Useful information for shareholders

Company's registered office

McBride House
Penn Road
Beaconsfield
Buckinghamshire
HP9 2FY
Telephone: 01494 607050
Facsimile: 01494 607055

Auditors

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

Solicitors

Ashurst
Broadwalk House
5 Appold Street
London EC2A 2HA

Financial adviser and broker

Dresdner Kleinwort Wasserstein
PO Box 560
20 Fenchurch Street
London EC3M 3LB

Principal bankers

Barclays Bank PLC
Eastern Region Corporate Business Centre
Eagle Point
1 Capability Green
Luton LU1 3US

Fortis Bank S.A./N.V.
Camomile Court
23 Camomile Street
London EC3A 7PP

KBC Bank N.V.
5th Floor
111 Old Broad Street
London EC2N 1BR

Registrars

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
Telephone: 0870 707 1136
Email: web.queries@computershare.co.uk
Website: www.computershare.com

Financial public relations advisers

Financial Dynamics
Holborn Gate
26 Southampton Buildings
London WC2A 1PB

Financial calendar 2006/07

Dividends

2005/06 final dividend	
Ex-dividend date	25 October 2006
Record date	27 October 2006
Final dividend payable	24 November 2006
2006/07 dividends	
Interim dividend payable	May 2007
Final dividend payable	November 2007
Other dates	
Annual General Meeting	31 October 2006
2006/07 Q1 trading statement	31 October 2006
2006/07 half year end	31 December 2006
2006/07 H1 trading statement	January 2007*
2006/07 interim results announcement	February 2007*
2006/07 interim report circulated	February 2007*
2006/07 year end	30 June 2007
2006/07 full year trading statement	July 2007*
2006/07 annual results announcement	September 2007

*These dates are provisional and may be subject to change.

Dividend payments

Shareholders may choose to have dividends paid directly into their bank or building society account. This benefits shareholders as the dividend is paid into their account, as cleared funds, on the date the payment is due. Confirmation of payment is contained in a dividend tax voucher which is posted to shareholders' registered addresses at the time of payment. This voucher should be kept safely for future reference.

Shareholder who wish to benefit from this service should complete a dividend mandate form, which can be found attached to the last dividend warrant. Alternatively, the required documentation can be obtained by contacting McBride's registrar using one of the methods outlined below in the section entitled 'Shareholder queries and helpline'.

Shareholder queries

Shareholders who change address, lose their share certificates, wish to amalgamate multiple shareholdings to avoid receiving duplicate documentation, want to have dividends paid directly into their bank account or otherwise have a query or require information relating to their shareholding should contact the company's registrar.

This can be done by writing to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 7NH. Alternatively, shareholders can contact Computershare on the dedicated McBride shareholder information telephone line: 0870 707 1136 or email their enquiry to web.queries@computershare.co.uk, indicating they are a McBride shareholder.

Shareholders are also able to access and amend details of their shareholding (such as address and dividend payment instructions) over the internet, subject to passing an identity check, via the registrar's website at www.computershare.co.uk.

Useful information for shareholders continued

ShareGift

McBride supports ShareGift, the share donation charity (registered charity number 1052686). ShareGift was set up so that shareholders who have only a very small number of shares which might be considered uneconomic to sell are able to dispose of them by donating them for the benefit of UK charities. Donated shares are aggregated and sold by ShareGift, the proceeds being passed on to a wide range of UK charities. Donating shares to charity gives rise neither to a gain nor a loss for UK Capital Gains purposes and UK taxpayers may also be able to claim income tax relief on the value of the donation.

Further information about donating shares to ShareGift is available either from its website at www.ShareGift.org, by writing to ShareGift at 5 Lower Grosvenor Place, London SW1W 0EJ or by contacting them on 020 7828 1151.

Even if the share certificate has been lost or destroyed, the gift can be completed. The service is generally free. However, there may be an indemnity charge for a lost or destroyed share certificate where the value of the shares exceeds £100.

Online shareholder services

McBride provides a number of services online in the investor relations section of its website at www.mcbride.co.uk, where shareholders and other interested parties may:

- View and/or download annual and interim reports.
- Check current or historic share prices (there is a historic share price download facility).
- Check the amounts and dates of historic dividend payments.
- Use interactive tools to calculate the value of shareholdings and chart McBride ordinary share price changes against indices.
- Register to receive email alerts regarding press releases, including London Stock Exchange announcements, annual reports and company presentations.

Share price history

The following table sets out, for the five financial years to 30 June 2006 the reported high, low, average and financial year end (30 June or immediately preceding business day) closing middle market quotations of McBride's ordinary shares on the London Stock Exchange.

	Share price (pence)			
Year ended 30 June	High	Low	Average	Financial year end
2002	64	30	48	57
2003	95	48	66	95
2004	150	92	126	149
2005	172	122	148	150
2006	**178**	**138**	**159**	**178**

Unsolicited mail

As the Company's share register is, by law, open to public inspection, shareholders may receive unsolicited mail from organisations that use it as a mailing list. Shareholders wishing to limit the amount of such mail can register online with the Mailing Preference Service at www.mpsonline.org.uk or ask for a registration form from Mailing Preference Service, FREEPOST 29, LON20771, London, W1E 0ZT.

Five year financial summary

	IFRS 2006 £m	IFRS 2005 £m	UK GAAP 2004 £m	UK GAAP 2003 £m	UK GAAP 2002 £m
Results					
Revenue	**540.1**	537.1	501.3	486.8	467.5
Profit before tax (before goodwill and exceptional items)	**29.8**	33.6	34.9	27.6	19.6
Profit after tax (before goodwill and exceptional items)	**21.0**	23.5	24.0	19.7	14.2
Profit before tax	**26.0**	30.6	30.2	26.2	2.2
Profit after tax	**18.4**	21.4	20.3	18.3	(3.2)
Earnings					
Earnings per share (before goodwill and exceptional items)	**11.7p**	13.2p	13.5p	11.0p	7.8p
Ordinary dividends*	**5.1p**	4.8p	4.0p	2.9p	2.1p

*Interim and proposed final dividend for the year.

The impact of the transition from UK GAAP to IFRS is included in note 28 to the consolidated financial statements.

Acknowledgements

McBride plc would like to thank those involved in the production of this report, including:

Design and production by CollegeDesign www.collegedesign.com

Director photographs by Iain Crockart. Operational photography by Philip Gatward and Ben Rice. Product photography by John Edwards.

Editorial and copy assistance: David Wilford.

Printing: This report has been printed by Colourhouse, one of the most environmentally friendly printers in the UK. Under the framework of ISO 14001 a structured approach is taken to measure, improve and audit their environmental status on an ongoing basis.

The printing inks and varnishes used in this report contain the maximum amount of renewable vegetable oil based raw material. They combine with hard resins that also have their origins in natural materials. They contain no heavy metal or toxic products and offer greater recycling possibilities than standard inks.

The paper used in this report is Revive uncoated which consists of 80% minimum de-inked post-consumer waste and 20% mill broke. It meets the National Association of Paper Merchants (NAPM) recycling standards as no virgin trees were directly pulped in its manufacture. The paper was bleached using an Elemental Chlorine Free (ECF) process.

If you have finished reading the report and no longer wish to retain it, please pass it on to other interested readers, return it to McBride plc or dispose of it in your recycled paper waste. Thank you.

This annual report is available at: www.mcbride.co.uk

ECF Elemental Chlorine Free

Produced at a mill that holds ISO 14001 certification

Fully recyclable and biodegradable

Wood fibre from sustainable forests

FSC Contains fibre from forests meeting the FSC principles and criteria

NAPM approved recycled product

INVESTOR IN PEOPLE

Robert McBride Ltd has Investor in People accreditation.

McBride plc
McBride House
Penn Road
Beaconsfield
Buckinghamshire
HP9 2FY
United Kingdom

Telephone: +44 (0) 1494 60 70 50
Facsimile: +44 (0) 1494 60 70 55