SSL International plc Annual Report 2001

SSL International plc

SSL is a world-class company, manufacturing and selling a comprehensive range of medical and consumer healthcare products in strategically defined core business areas designed to maximise shareholder value.

Highlights

	2001	2000*
Sales	**£649.3m**	£614.0m
Operating profit**	**£114.2m**	£99.9m
Profit before tax**	**£91.3m**	£81.4m
Adjusted earnings per share**	**38.9p**	33.7p
Dividend per share	**12.3p**	12.0p

*12 month comparative figures
**before exceptional items

Immediate success by design

Developed in response to the issue of deep vein thrombosis, the new Scholl Flight Socks are a resounding success, with priority listings attained in a number of large pharmacy chains. Currently the only DVT product endorsed by the Aviation Institute, they will soon be launched internationally in key markets.

£649m

Sales

Sales of £649 million represents growth of 5.7 per cent over the comparative 12 month period for 1999/2000.

Manufacturing rationalisation

Expansion of surgical glove and condom capacity in the Far East is now complete and the new UK pharmaceutical facility will be operational from summer 2001.

£46 million acquisition of Hibi antiseptic brand from AstraZeneca

The acquisition of the medical antiseptic market leader strengthens our medical brand portfolio and brings important new opportunities for the distribution of medical products.

£91m

Pre-tax profit*

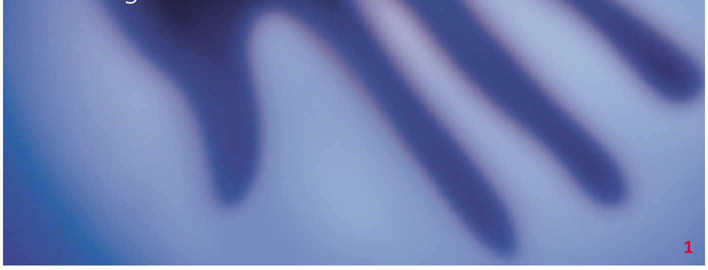
Compared with the 12 month performance to 31 March 2000, profit before tax and exceptional items has increased by 12.2 per cent.

*before exceptional items

Contents

Regent Biogel Skinsense N

The launch of this leading edge synthetic surgical glove, complements our Biogel powder-free latex range.



This is SSL International

SSL has an extensive portfolio of consumer healthcare, medical and barrier protection products in the areas of family planning, footcare, footwear, over-the-counter pharmaceuticals, surgical gloves, wound management and infection control, continence care and household and industrial gloves.

SSL currently has commercial offices in thirty five countries, employing almost eight thousand people. Over one hundred additional markets are serviced via local distributors and agents, or through our UK export function.

Medical

The Regent Biogel range of powder-free surgical gloves is our leading medical brand, currently sold in around 30 countries, with further geographical expansion planned for this year. This range includes surgical gloves suitable for a variety of procedures, including microsurgery, orthopaedic and dental work. Most of the range is manufactured from natural latex, but we have a growing synthetic segment with gloves manufactured from Neoprene.

During the year, we acquired the Hibi range of antiseptic products, which are principally used as skin cleansers by hospital staff. This acquisition has complemented SSL's existing infection control business and has given us a medical platform in new countries from which to launch other SSL products.

As part of our wound management range we have recently launched Avance, an absorbent dressing containing silver, a powerful anti-microbial agent, for the management of chronic wounds.

Other medical brands owned by SSL include Lyofoam (wound dressing), Brevet (compression hosiery), Poviderm (iodine dressing), Betadine (antiseptic), Epaderm (emollient cream), Tubifast (wet wrap for eczema) and Simpla (continence care range).

Consumer Healthcare

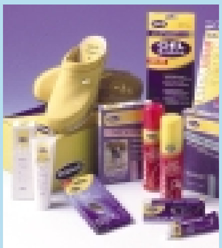
Our portfolio of consumer products is led by the global brands Durex (condoms) and Scholl (footcare and footwear). Durex is sold in all four of our geographical regions, whereas we sell Scholl products everywhere except for the Americas, where the brand is owned by Schering Plough.

Sales of Durex and Scholl accounted for approximately 43 per cent of Group sales in the year. Further details of the full Durex and Scholl product ranges are given in the Operational Review. New products launched in the year include Scholl Flight Socks and Gelactiv footcare treatments.

In addition, we have many strong regional consumer brands that give critical mass to local operations, particularly in our major European markets (UK, Italy, France and Germany). This business, brought together as the OTC and Health and Beauty category, contains over 50 brands.

These include Mister Baby (baby products), Sauber (hosiery and toiletries), Resolve (hangover remedy), Syndol (analgesic), Cuprofen (analgesic), Full Marks (head lice treatment), Meltus (cough and cold remedy) and Remegel (indigestion remedy).

Of these brands, the first two are currently sold in Continental Europe whereas the remainder are almost exclusively UK brands. There are, however, plans to launch Remegel into a number of other countries during 2001.



Marigold Gloves

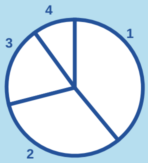
SSL's Marigold gloves business is comprised of two distinct product ranges, Marigold Industrial and Marigold Household, sold both in the UK and internationally.

Marigold Industrial comprises a range of gloves that provide specialist protection against a variety of industrial hazards including heat, abrasion, chemicals and corrosives. Marigold chemical resistant gloves are tested against 92 chemicals to assess performance levels for breakthrough time, permeation and degradation.

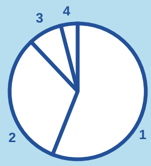
Marigold household gloves have a wide range of domestic uses, from light indoor use to gardening.

Household and Industrial versions of Marigold Futura, a new synthetic glove, were launched during the year.

Geographic Reach



Turnover by Geographical Area
1 UK and Eire 40%
2 Continental Europe 32%
3 Americas 19%
4 Asia Pacific and ROW 9%

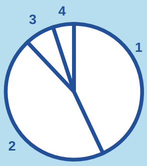


Turnover by Business Area
1 Consumer Healthcare 55%
2 Medical 33%
3 Marigold 8%
4 Other 4%

UK and Eire

Turnover in the UK and Eire amounted to £258 million in the year, representing 40 per cent of Group sales. The UK business is the most diverse, with all SSL product categories represented. The largest UK business is the OTC range, which includes pharmaceutical products and the ProSport range of sport supports.

Much of the Group's production is carried out in the UK at seven manufacturing facilities, producing OTC pharmaceuticals, hosiery, wound dressings, continence care and footcare products. SSL's corporate head office is also located in the UK.

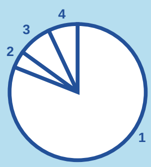


Turnover by Business Area
1 Consumer Healthcare 43%
2 Medical 45%
3 Marigold 7%
4 Other 5%

Continental Europe

The Continental Europe division generated £207 million of Group turnover during the year, representing 32 per cent of total sales. Within the division, 71 per cent of turnover is accounted for within five countries: Italy, Germany, France, Spain and Sweden.

Until 2001, the division was primarily a consumer healthcare business via Scholl, Durex and a number of European healthcare brands, including Sauber and Mister Baby. While consumer products remain the largest generator of turnover for the region, increasing emphasis will be placed on the expansion of our major medical brands, Regent and Hibi. Investment in dedicated in-house medical sales forces is already under way in areas previously serviced by distributors or agents.

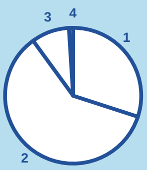


Turnover by Business Area
1 Consumer Healthcare 81%
2 Medical 4%
3 Marigold 8%
4 Other 7%

Americas

Sales in the Americas region were £122 million during the year, representing 19 per cent of Group turnover, largely generated from Regent surgical gloves (55 per cent) and Durex condoms (28 per cent). Major developments in the year included the disposal of our unbranded condom manufacturing facility in Alabama, and the outsourcing of Durex sales and marketing to Crossmark.

Our Silipos polymer gel wound management business is also based in the USA. This operation manufactures and distributes products containing mineral oil that gradually diffuses into the skin, improving skin elasticity and reducing scarring. Silipos gel is also used in the Scholl Gelactiv footcare range.

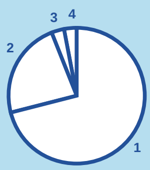


Turnover by Business Area
1 Consumer Healthcare 30%
2 Medical 60%
3 Marigold 9%
4 Other 1%

Asia Pacific and Rest of World

SSL has ten operations in the Asia Pacific region, stretching from Japan in the North to Australia and New Zealand in the South. Turnover in the year was £62 million, representing approximately 9 per cent of Group sales, divided relatively evenly between condoms, footcare, footwear and wound management. The Japanese operation is the largest in the Asia Pacific region.

The majority of SSL's latex based manufacturing is located in this region, with Durex produced in Thailand, India and China, and Regent and Marigold in Malaysia.



Turnover by Business Area
1 Consumer Healthcare 71%
2 Medical 23%
3 Marigold 3%
4 Other 3%

In what is my last statement as Chairman of SSL, I am pleased to be able to report further increases in sales and profits. We must take a positive view of events during the year, which we hope will turn out to be a catalyst for a strengthened base for the business in the future. In this context, I would like to open my statement by thanking everyone who works in and with the business for their continued support.

Results

Turnover for the year ending 31 March 2001 was £649 million. Previous year comparisons are complex because of a change in accounting date, acquisitions and disposals, and trade loading. To the extent that we are able to draw conclusions from comparisons last year, these are set out in the Financial Review. These sales translate to a pre-tax, pre-exceptional profit of £91 million, in line with expectations.

We announced in the year a determination to rid the Group of trade loading, or the forward buying of product by our customers. The objective that has been set by the Board is to achieve a clean base from which we can measure the organic growth of the business in the future. The anticipated impact of this on the results for 2001/2 is set out in the Financial Review.

Investigation

The trade loading review gave rise to a separate investigation by external advisers into the overstatement of results of prior periods. This investigation is close to completion, and the impact of the misstatement on the results for each of the affected periods is set out in detail on pages 43 and 59. The overstatements total £22 million of sales and £19 million of pre-exceptional profits in the 25 months to 31 March 2000.

As set out in their report, our auditors, Arthur Andersen, have not been able to satisfy themselves as to the appropriateness and completeness of the prior period adjustment. The Board is confident that it has investigated the prior period misstatement extensively with the assistance of KPMG external forensic accountants and lawyers DLA. It is satisfied that the adjustments made in these statements are fairly presented and comply fully with the requirements of all applicable accounting standards; the Board does not consider that the auditor's qualification should cast doubt on the accuracy of the financial statements for the year ended 31 March 2001 nor on the comparable period results as restated and included herein.

The Board is confident that these misstatements do not adversely affect current trading.

Investment

We have continued to invest in our core businesses that we believe have the potential to enhance shareholder value. These include the expansion of production facilities for both Regent Biogel, our brand of leading powder-free surgeon's gloves, and the world's number one condom brand, Durex.

We have also purchased the Hibi range of antibacterial scrubs from AstraZeneca, which will complement the surgical glove and wound management ranges as we exploit channels to market. The Hibi range of products will eventually be produced at our new state-of-the-art pharmaceutical manufacturing facility in the North East of England, which will also manufacture much of the Group's range of over-the-counter medicines.

Dividend
The Board recommends to shareholders a final dividend of 8.4 pence per share, giving a total of 12.3 pence per share for the full year. This is a 2.5 per cent increase on last year's payment which related to a 13 month period. The Board believes that this is an appropriate increase given the strength of our underlying business, and having regard to both the maintenance of a progressive dividend policy and the elimination of trade loading. The dividend will be paid on 1 August to shareholders who were on the register on 15 June 2001.

Directors
The composition of the Board of directors has seen significant change.

During the year Iain Cater and Paul Sanders resigned from their respective positions as Chief Executive and Finance Director. In addition, in May 2001, Executive Directors Dieno George and Graham Collyer resigned from the Board.

In March 2001, we recruited Brian Buchan as our new Chief Executive. Brian brings a wealth of global brand-building experience born of long association with Procter & Gamble. Garry Watts, our new Finance Director who joined in February 2001, has significant experience of the healthcare industry. He was Medeva plc's Finance Director from 1996 until the merger with Celltech Group plc. Garry has been a member of the ministerial advisory Board of the Medicines Control Agency since 1992.

We have also recruited two Non-Executive Directors of international standing. Alain Strasser, of French nationality, has worked in senior positions for Unilever plc. Bernd Beetz, of German nationality currently residing in the USA, spent several years working for Procter & Gamble in Europe. The Board expects that both will make a significant objective contribution as the Board seeks to grow the business.

The Board wishes to extend its thanks to Roger Thomas and Nicholas Hodges who have both decided to leave at the end of July. Roger joined the company in 1998, and has seen the Group through both mergers. Nick has been Deputy Chairman since 1999, having been Chief Executive of London International Group plc, and his help in integrating the businesses has been of real value. We wish them both well for the future.

We are continuing with our search for a new Chairman, and will make an announcement at the earliest appropriate time.

Outlook
The current year has started satisfactorily in terms of trading performance, and the new management team is already grasping the challenges facing the business.

Stuart Wallis
Chairman

I am pleased to be addressing the shareholders of SSL for the first time since my appointment as Chief Executive in March 2001.

As the Chairman's statement acknowleges, this has been a difficult year for SSL, but I would like to focus on the lessons we need to learn and how we will operate moving forward, in order to maximise our undoubted potential.

Driving organic growth

Coming from a branded consumer products background at Procter & Gamble, I was attracted to SSL by the strength and profile of its product portfolio, particularly the Durex, Scholl and Regent Biogel brands. My first three months at SSL have confirmed my belief that these brands continue to offer real growth opportunities from their positions as market leaders in numerous areas.

In February 2001, along with a revised estimate of the profit for the year, we announced a full review of SSL stock on hand with our major customers. It is clear that we have historically operated with trade loading at period ends. This review is now complete, having identified £63 million of trade stock in excess of normal commercial levels. All of this excess stock will be eliminated in the year ending 31 March 2002.

As explained in the Financial Review, the resulting effect on operating profit on the year to 31 March 2002 will be in the region of £50 million, reflecting the lost margin on reduced sales plus associated exit costs. The benefits of reducing stock levels will be seen in a number of areas, including improved cash flow, more efficient manufacturing and strengthening of margins.

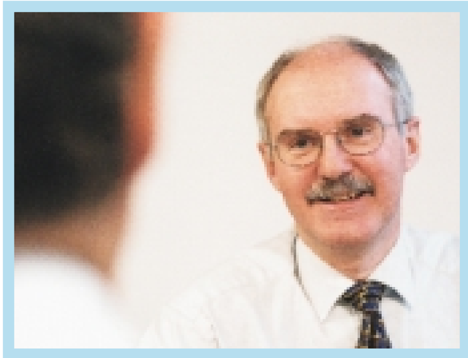
Customer service levels will also be improved as we streamline our business and aim to get to best-in-class levels. We will be investing in the people and systems that will move us forward and allow us to capitalise on our strong brands.

Brands of the calibre of Durex, Scholl and Regent require and deserve strong and creative support, both from marketing initiatives and new product development. I intend to increase focused investment in both of these activities.

This investment is already underway, with the roll-out of innovative marketing and TV advertising programmes for Durex. Scholl has been strengthened significantly by the recent launch of Flight Socks, which is exceeding initial forecasts and looks set to be one of the most successful new launches in the Group's history.

Our powder-free surgical gloves business, sold under the Regent brand, is currently sold principally in the USA and UK, but has real expansion potential. The increase in capacity at our plant in Kulim, Malaysia, together with the construction of a new clean room and packaging facility close by at Kuala Ketil, will enable us to enter new markets for this world-class product range. We are also commencing the roll-out of Regent Biogel Skinsense N, a high quality synthetic glove which will allow us to maintain momentum in existing markets.

In addition to Biogel Skinsense N, our in-house R&D function has generated a number of new product launches this year. These include Avance wound dressings and Scholl Gelactiv footcare products which incorporate Silipos gel. We continue to maintain an excellent working relationship with Schering Plough, the owner of the Scholl brand in the Americas, further strengthened by the signing of a technology sharing agreement in September 2000.This allows both companies to share in new product development and marketing initiatives, with the result that the global Scholl brand is enhanced to our mutual benefit.



Strategy

As well as addressing the drivers of long-term organic growth for the Group, we will review our strategic priorities and identify areas for future business development and potential divestment. Where brands or products are divested, we will ensure that value is achieved for shareholders in the form of disposal proceeds and subsequent reinvestment in stronger brands.

Using media such as the Group's website, we will establish more open communication with our investors in order to ensure a common understanding of the key business drivers within SSL, our future potential and our business objectives.

Employees

I have been spending considerable time getting to know SSL employees worldwide. Despite the publicity surrounding recent events, they have continued to demonstrate their loyalty and commitment to the Group. They are energised by the opportunity to drive the organic growth of the business and by the commitment to withdraw from unproductive trading practices. They remain crucial to the future success of SSL, and on behalf of the Board, I would like to thank them all for their contributions.

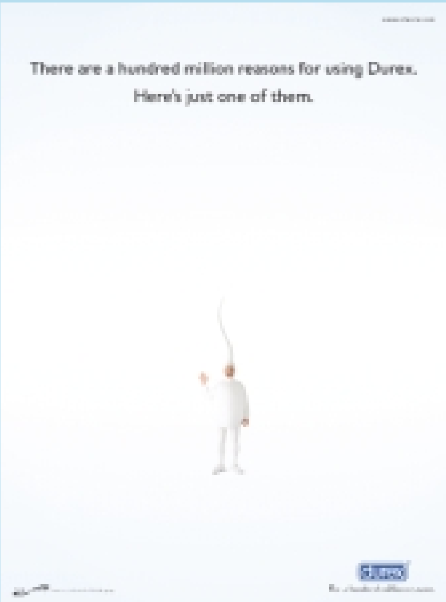
In summary, there are challenges ahead for SSL and for the Board, not least in regaining our reputation for delivering stakeholder value, but I firmly believe that we have the resources, commitment, and product portfolio to succeed.

Brian Buchan
Chief Executive

Global Growth

SSL is an expanding global company, with strategically placed manufacturing sites serving regional businesses around the world.

With turnover this year of £135 million, the family planning business is SSL's largest single product category, accounting for 21 per cent of Group sales. The business is spearheaded by Durex, the world's only truly global condom brand, which is sold in over 140 countries. Against global condom market growth of approximately 4.5 per cent, the SSL family planning business has shown underlying sales growth of 10 per cent this year. Durex is supported by innovative marketing campaigns and an unwavering commitment to quality.



SSL International is a premium branded healthcare business, with offices in 35 countries. Our international brands, Durex, Scholl and Regent, have reinforced their positions during the year, and continue to be critical to the Group's success, collectively generating 58 per cent of Group turnover. Our local and specialised brands have supported the Group's operations, providing critical mass to regional businesses.

Durex

Market development

The key drivers for growth in condom sales are youth education and recruitment. As a result, marketing initiatives in the coming year, comprising education programmes, media advertising and product promotions, will specifically target young males using a condom for the first time. Market research has shown that, once recruited, brand loyalty among users is extremely strong.

One of the major programmes planned for 2001/2 is a pan-European sponsorship campaign with MTV, targeting 59 million 16 to 24 year olds in over 40 countries. The key strategy of the programme, which aligns Durex with mainstream youth culture via dance music, is to recruit new, young customers to the brand.

A new advertisement has been created for media campaigns, entitled "Durex, for a hundred million reasons", which makes a serious point about barrier protection in an entertaining and non-preaching way.

Durex web site

The Durex web site, www.durex.com, was relaunched in September 2000 in over 30 countries. It features localised pages, the majority of which are in local languages. The site, which is visited by approximately 200,000 users every month, has an improved engine, clearer interface and the option of on-line purchasing for consumers.

Plans are in place to develop two further sites: a mini site geared to the young user, providing information about Durex sponsored club tours, and a healthcare professional site, reinforcing Durex's position as a global authority on safer sex issues.

Durex Sex Survey

The 2000 Global Sex Survey was expanded to include 18,000 participants in 27 countries, resulting in probably the world's largest ever study of sexual attitudes and behaviour. The most successful survey in its five year history, the 2000 report achieved its highest ever media coverage, with an estimated 1.3 billion people able to see the results, double that of the previous year.

Manufacturing and Quality

The investment in our condom manufacturing facilities is discussed on page 19. Durex condoms are manufactured to meet or exceed all national and international quality standards and regulations world-wide. Rigorous statistical process controls are used to ensure consistent high quality.

An innovative pipeline of new product development will secure the continuing success of the business in meeting changing demands around the world.

Sales of footwear and footcare products under the Scholl brand accounted for approximately 21 per cent of Group sales for the year.

In September 2000 we sold the Scholl brand in Latin America back to Schering Plough Corporation, owners of the brand in North America, as it became apparent that the Scholl business in Latin America was not viable on its own. With the exception of the Americas,

SSL owns the Scholl brand worldwide.

Above Some of the Scholl footcare range.

Below Scholl Gelactiv footwear advertising.

Scholl footcare and footwear

Brand development

The continued development of the Scholl brand and product range has been a high priority this year, facilitated by the bringing together of Scholl footwear and footcare as one category, managed and supported by a single dedicated team. Greater focus has been placed on contemporising the total Scholl brand and concept via new Scholl advertising campaigns.

There have been a number of exciting new product launches and marketing campaigns in both footcare and footwear.

New product development

Scholl Flight Socks were launched in the UK in March 2001, as a proactive response to the issue of deep vein thrombosis ("DVT") resulting from long haul flights, so-called Economy Class Syndrome. Scholl Flight Socks are currently the only DVT product officially endorsed by the Aviation Institute.

This new product, which uses a clinically proven graduated compression system, has been an immediate success, with priority listings in a number of large pharmacy chains, helped by an excellent PR programme in the national media. Flight Socks will be rolled out internationally to key markets such as Australia, Hong Kong, and parts of Continental Europe in the second half of 2001. Information on Scholl Flight Socks can be found on a dedicated website, www.schollflightsocks.com.

Also launched during the year were Scholl Revitalising Gel and Spray, designed to revitalise tired, aching legs and feet and Scholl Blister Spray, an innovative blister protection product in a can instead of a plaster.

In September 2000, SSL entered into a long-term technology sharing agreement with Schering Plough for the development of new footcare products. Under the agreement, new products developed by either party will be available for sale by the other in their respective territories, subject to a royalty payment.

Scholl Gelactiv

The Scholl Gelactiv concept has continued to expand this year, both in footwear and footcare.

Gelactiv footcare products incorporate a proprietary mineral gel that provides a superior cushioning effect, while also moisturising the skin with vitamin E. The gel was developed by SSL's Silipos operation in the USA, which also manufactures a range of medical products under the Silipos brand name.

A number of Gelactiv footcare products have been launched this year into the UK and Continental European markets, including products to treat corns, callouses and bunions. Further additions to the range are planned for the coming year, including the launch of an intensive moisturising sock.

The Scholl Gelactiv footwear range uses a shock absorption gel for improved comfort. Sales have increased this year following additional investment in advertising, including a television trial in Sweden, Hungary, Poland and Austria. The Italian market, which accounts for around 28 per cent of the Group's footwear sales, has benefited from an integrated campaign using press and outdoor advertising through to pharmacy window displays.

Another footwear success story has been the development of the Thai business since its transfer from a licensee to the SSL Thai subsidiary in 2000. Thailand now accounts for the largest part of the Scholl footwear business in terms of volume.

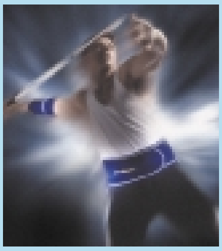
Scholl website

A comprehensive Scholl website will be launched this month, providing information on the full range of products, together with education, help with self-diagnosis and new developments in footcare and footwear. The site will be accessible via www.schollfootcare.com and www.schollfootwear.com. Local language versions of the site will be launched in major markets later in the year.

Strength in Brands

Major investment lies behind the key global brands in each of the three core business areas. The brands are also supported by new product development, high quality standards and commitment to customer service.

Sales of OTC products accounted for 13 per cent of the Group's turnover during the year, of which around 63 per cent arose in the UK, where activity is focused on the key segments of analgesics, gastrointestinal remedies, cough and cold remedies and head lice treatments.



Marigold Futura household gloves, developed from synthetic nitrile material, have proved an excellent addition to our existing latex range.

Other consumer brands

Other consumer brands, managed as our OTC category but containing a wide variety of products, provide support and critical mass to local operations, mainly in the UK and parts of Continental Europe.

Of particular importance to the Continental European division is the Mister Baby range of infant feeding products, including bottles, teats and pacifiers. During the year, the new Mamma range of teats has been launched, which uses anatomically correct teats in order to mimic the action of breast feeding.

The UK OTC business is the largest in the SSL Group, comprising over 50 brands. The main brands, which account for 45 per cent of UK OTC turnover, are Remegel, Resolve, Full Marks, Derbac, Meltus, Cuprofen and Syndol.

The ProSport range offers a variety of advanced sport supports for all parts of the body. A number of key sponsorship arrangements have been established this year, including a three year exclusive deal with Team GB, the Great Britain Olympic Team, and additional sponsorships with the England Rugby Union Team and other sports and leisure bodies. During the year, SSL launched ProSport Magna Energy, a new range of magnetic support products. Internationally, we rolled out ProSport under the Scholl brand name in parts of Europe and the Far East, with further roll-out plans already in progress.

Remegel, a unique indigestion remedy in the form of soft, chewable tablets, has been developed further this year, with the launch of Remegel Wind Relief. In 2001/2, Remegel will be launched into France under the brand name Gelusoft.

The headlice category remains a core focus of the UK OTC business. The relaxation of government restrictions gave us the opportunity to advertise Full Marks Mousse on television in August/September 2000. Consumer reaction to the campaign was excellent, resulting in significant market share and category growth.

Marigold household and industrial gloves

The Marigold brand name encompasses ranges of household and industrial gloves which, despite being separate businesses sold in different markets, share some manufacturing and research resources.

During the year, versions of Marigold Futura synthetic nitrile gloves were launched both as a household and an industrial glove.

Futura gloves offer improved durability and sensitivity, with enhanced properties to reduce puncturing and abrasion. The gloves are soft and flexible, giving the feel of natural latex but with different chemical resistance, making them excellent for food handling. An enhanced grip pattern produces better feeling and grip in both wet and dry conditions.

Marigold Futura household gloves are a proven success in the Scandinavian markets as a result of their environmentally acceptable properties, and they have recently been launched in the UK and the rest of Continental Europe.

World-class

SSL International is a leading healthcare company with world-class products in a global marketplace.

The medical division of SSL accounted for approximately 33 per cent of Group turnover during the year. The largest medical brand is Regent Biogel, SSL's range of leading powder-free surgical gloves, which generated sales of £101 million in the year.

Above The new Avance wound dressing launched in May 2001.

Below An example of print advertising for the new Biogel Skinsense N glove.

Medical products

Regent surgical gloves

The Regent Biogel range of surgical gloves is sold in a number of selected markets around the world, with the major sales territories currently being the USA and UK.

High quality latex gloves remain the most effective protection against the transmission of microbial diseases, including viruses such as HIV and Hepatitis B, for both patient and healthcare professional.

The USA is the largest single market for surgical gloves, valued at approximately $280 million per annum. The surgical gloves market is divided into three main segments: powdered latex, powder-free latex and synthetic products.

The powdered gloves segment remains the largest by volume but, driven partly by concern over latex allergies, the market continues to move from traditional powdered to powder-free gloves. The powder-free segment, led by Regent Biogel in the USA and UK, has approximately 40 per cent of the total market by value. SSL manufactures only powder-free latex and synthetic surgical gloves, sold under the Regent Biogel brand name.

Although still a minor segment, the proportion of synthetic gloves is also rising and now comprises approximately 9 per cent of the US market by value. SSL manufactures a range of synthetic surgical gloves, including the new Regent Biogel Skinsense N glove, launched in the USA in March 2001, with the international launch planned for later in the year.

Expansion into new markets has been constrained in the past by limited capacity in our manufacturing plant in Kulim, Malaysia. In 1999/2000, approximately 104 million pairs of surgical gloves were manufactured. As a result of the expansion of the Kulim facility in 2000, approximately 120 million pairs of gloves were produced in 2000/1. Full year capacity is currently approximately 155 million pairs per annum.

The Regent web site, www.regentmedical.com, has been redesigned and relaunched during the year. This improved site not only provides comprehensive information on the full Regent range via global and UK sections, but also gives valuable information on worldwide glove research and safety.

Other medical brands

SSL has a number of other medical businesses, currently focused mainly in the UK but with a number of overseas product launches planned for this year. This business comprises a diverse range of products for use in a variety of medical treatments, both in hospitals and in the wider community.

A revolutionary new approach to the UK healthcare market is being developed by SSL, addressing the needs of Primary Care Organisations using an integrated communication package called *Solutions*. Rather than presenting a catalogue of products, *Solutions* uses a combination of audit tools, educational materials and professional guides, utilised by a dedicated sales team, to tailor product offerings to individual organisations' needs.

Wound management

The wound management segment focuses on advanced wound dressings with a number of branded products, including Lyofoam adhesive dressings, Poviderm, an iodine dressing, and the Tubi range of products.

During May 2001, the Avance wound dressing was launched into the UK medical market. Avance is a polyurethane foam dressing containing silver, a broad spectrum anti-microbial agent. It is the only dressing currently registered on the UK Drug Tariff that has both high absorbency and antibacterial properties, allowing it to remain in place for longer than other dressings. It is a significant development for the management of chronic wounds such as ulcers and pressure sores, and launches outside the UK are planned for 2001/2.

During the year, SSL launched a wound management web site, www.ssl-woundmanagement.com, which provides information on SSL's products, together with research and education on the medical conditions treated by the product range.

The Silipos operation in Niagara Falls, USA manufactures gel-based orthopaedic, orthotic, prosthetic and skin care products that continually moisturise the skin and minimise the effects of scarring. Silipos also provides oil-based mineral gel for inclusion in the Scholl Gelactiv footcare range. New products introduced during the year under the Silipos brand include a diabetic sock and a heavy duty below the knee sleeve.

There is a global commitment to continuous quality assessment and adherence to international standards in keeping with environmental responsibility.

This year saw the successful launch of Aquaflex Cones, a unique and natural pelvic floor exercise system that is clinically proven to improve significantly, or even cure, female stress incontinence. Aquaflex was marketed to UK healthcare professionals in March 2001 with the support of a new educational video starring Toyah Wilcox and advertising in professional nursing journals. In 2001/2, Aquaflex will be positioned as a consumer product in the UK and will also be launched into a number of European countries. Further information on stress incontinence and Aquaflex Cones is available at www.aquaflexcones.com.

Infection control

The infection control segment comprises a broad range of products designed to aid the prevention of infection in a number of medical environments. The range has been expanded this year to include a new product, Manugel, an alcohol based gel. Manugel sachets, the only single unit dose hand disinfectant currently available, are designed to give community healthcare workers the ability to disinfect their hands without the need for running water, thereby reducing the risk of cross-infection.

SSL's main infection control area is the Hibi range of antiseptics, acquired from AstraZeneca plc on 13 November 2000 for £46 million, in all countries except Japan.

This well established and respected range is currently sold in over 150 countries. Combined with our expanded Regent surgical glove capacity, Hibi will give us an enhanced operating room presence, particularly in key European markets.

Sales of the range in the period from acquisition were £11 million. For the time being, AstraZeneca will continue to manufacture the range on our behalf, but we intend to transfer production to our new pharmaceutical factory in Peterlee, County Durham, in 2002.

Compression therapy and wet wrapping

The compression therapy segment focuses on the treatment of varicose veins and oedema, with products such as Tubigrip and the Scholl and Brevet ranges of compression hosiery. The Scholl Ultima range of compression hosiery, which uses new yarn technology, was launched this year, giving improved patient compliance due to easier fitting and a more modern appearance.

Finally, wet wrapping therapy, pioneered by SSL, treats atopic eczema, which affects 20 per cent of children by the age of seven and is an extremely distressing condition. The treatment consists of an integrated system of Tubifast bandages and Epaderm emollient to provide short-term relief from symptoms and medium-term management of the condition.

Continence care

SSL's continence care business (known as Simpla Continence Care) offers a range of market leading continence care devices in the UK and Australia, including urine drainage bags, sheaths and catheters, designed to help establish and maintain a patient's independence, confidence and self-esteem. During the year, a number of improved products have been launched, including a new version of the Simpla S2 bedside urine bag. This incorporates an easy to operate emptying system helping to safeguard both nurses and patients from the dangers of cross-contamination. Improvements have also been made to the AquaCath catheter, with ultra smooth eyes produced on new ultrasonic equipment at our Oldham factory. Trials of catheters with the new eyes have indicated that patient acceptance is considerably higher than with the original design. Information on the Simpla range and relevant news can be found on our website www.simpla.com.

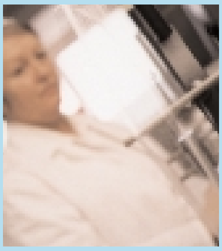
The continence care business includes ThackrayCare Nursing Services, a team of specialist urology nurses providing independent advice and practical help in the patient's home. During the year, each ThackrayCare nurse was provided with a bladder scanner. These sophisticated ultrasound machines allow for faster and more accurate patient assessment without the need for referral to a specialist clinic.

Manufacturing Expertise

The company is committed to investing in its own state-of-the-art manufacturing facilities in the most cost-effective locations, giving superb quality control and dedicated responsibility for meeting sales and marketing demand.

SSL currently has 18 manufacturing operations, including joint ventures, in 8 countries.

SSL is committed to investing in cost efficient state-of-the-art manufacturing facilities, producing world-class products in all of our categories. In line with this strategy, there have been a number of significant developments in the year.



Manufacturing

Surgical gloves

A £9 million expansion of our manufacturing facility in Kulim, Malaysia has now been completed, with full production in place from March 2001. This takes account of growing demand for the world's best-selling powder-free surgical glove, Regent Biogel. Annualised capacity is now 155 million pairs, with space available for further expansion in line with the Group's five-year strategic plan. More than 5 per cent of the Kulim workforce is involved with quality control.

A further £7 million is being invested in a new surgical glove inspection and packing facility on a six-acre site at Kuala Ketil, Malaysia, scheduled to be fully operational in October 2001. The new facility will package all of the gloves produced at the enlarged Kulim factory. SSL's current sterilising partner, Isotron, is in the process of constructing an adjacent facility, meaning that gloves can be sterilised locally rather than being shipped to the UK and the USA, as is the current process. This will improve efficiency, cut lead times and enhance product quality.

Condoms

An £8.6 million expansion of SSL's condom manufacturing facility in Bangpakong, Thailand has been completed, with capacity transferred from the USA, resulting in an increase in Thai capacity from 1.4 million gross to 3 million gross per annum. The factory now has 15 dipping lines, new offices and new warehousing. We have invested strongly in the training and development of existing and new employees, and are now implementing a programme of total production maintenance and zero defects. We expect improved efficiency to result in reduced lead times leading to better customer service.

The sale of our US unbranded condom facility to Custom Services International was completed in September for approximately $8.3 million.

OTC pharmaceuticals

Following a full review of the Group's manufacturing facilities, we announced the closure of our factory in Blackburn and the proposed closure of our Bootle site, both in the UK. Production will be transferred to our new pharmaceutical factory in Peterlee, UK.

This £12 million dedicated pharmaceutical factory is on a greenfield site and incorporates leading-edge production processes. The facility will become operational in June 2001. Manufacture of the recently acquired Hibi range of antiseptic solutions is scheduled to be transferred to Peterlee from AstraZeneca in 2002. The new facility will give us greater efficiency and flexibility for expansion.

Environment

SSL is committed to the well being of the environment in which it operates. The avoidance of pollution and other forms of environmental care in our operations is an integral part of a commitment to health in the community.

SSL has issued its second environmental report, which explains our efforts to ensure that operations and products have as little adverse impact as possible on the environment.

We have made significant progress in our environmental improvement programmes, demonstrated by an improvement in our rating in the Business in the Environment, index of Corporate Environmental Engagement for the FTSE 350.

One of SSL's leading environmental policies is to implement and maintain a management system as defined by ISO 14001. We continue to increase the number of sites registered as ISO 14001 compliant and all sites are currently working towards achieving the standard this summer.

A complete listing of SSL's environmental policies can be found in the full environmental report, available from our corporate head office and on our corporate website, www.ssl-international.com.

Once adjusted for a number of special factors, the results for the year show good underlying growth of both sales and profits.

Basis of preparation
SSL's results for the 12 month period to 31 March 2001 are set out on page 38. The comparative period represents the 13 months ended 31 March 2000, following a change in the accounting year-end during that period. All references to comparative figures throughout this review for the 12 months to 31 March 2000 are to unaudited, proforma numbers based on the audited 13 months results to 31 March 2000.

Overall results
Sales in the year of £649 million generated an operating profit of £114 million, giving an operating margin of 17.6 per cent before exceptional items.

The results for the year are, however, affected by a number of special factors, including prior year adjustments, exceptional items, acquisitions and disposals. After taking account of these, sales grew by 6.8 per cent over the previous 12 month comparative period, and operating profit increased by 12.9 per cent. These results are discussed in more detail below.

Trade loading
The Group has carried out an investigation into the practice of trade loading. The results of this investigation indicate that customer inventory levels resulting from sales made in advance of normal commercial requirements amounted to £63 million at 31 March 2001. The comparative figure at 31 March 2000 is estimated to have been broadly the same for the overall Group, so that there has been no net effect on underlying sales in the year under review.

We intend to reduce these excess stocks, the majority of which exist in the UK (£36 million), Continental Europe (£7 million) and the US (£19 million), to normal commercial levels by the end of the current financial year. Accordingly, sales in 2001/2 will be adversely affected by approximately £63 million and, as a result, we estimate that profits will be adversely affected by £50 million. These impacts will not recur in future years.

Prior period adjustments
During this investigation it became clear that the results for the 25 months ended 31 March 2000 had been overstated. In conjunction with external advisers, we have calculated that sales for that period were overstated by £22 million, and profit before tax and exceptional items by £19 million, resulting in a £15 million reduction in net assets at 31 March 2000. The Board is confident that these overstatements do not adversely affect current or future trading. The detailed adjustment to prior period results is set out in note 33 on page 59.

Figure 1: Underlying results

	Sales £m	Gross margin £m	Contribution £m	Operating profit £m
31 March 2001				
Reported results	649.3	384.1	324.2	114.2
Acquisitions	(22.4)	(11.5)	(10.5)	(7.4)
Disposals	(15.7)	(5.3)	(4.7)	(2.1)
Results	611.2	367.3	309.0	104.7
31 March 2000				
Reported results	618.8	366.1	304.5	105.2
Restatement adjustment	(4.8)	(5.2)	(5.2)	(5.3)
Acquisitions	(38.9)	(3.5)	(3.5)	(0.9)
Disposals	(5.2)	(20.4)	(18.2)	(5.7)
Foreign exchange	2.3	1.3	0.8	(0.6)
Underlying results	572.2	338.3	278.4	92.7
Underlying growth	6.8%	8.5%	11.0%	12.9%

No adjustment has been made for trade loading and all figures are shown before exceptional items

Exceptional items

As part of the interim results in November 2000, the Group announced that it would incur exceptional costs of £225 million as a result of the merger of Seton Scholl with LIG. Following the prior year adjustments, the total exceptional cost has been re-estimated as £209 million. Of this total, £139 million was charged in the year to 31 March 2000. The charge in 2000/1 was £54 million before taxation, leaving £16 million to be charged in the year to 31 March 2002.

The total exceptional costs comprise £127 million of cash charges and £82 million of asset write downs, including goodwill. Payback from these charges will arise principally from supporting the gross margin, enabling incremental investment in marketing spend and improving the net operating margin.

Acquisitions and disposals

During the year the Group completed the disposal of the unbranded condom facility in the USA, the UK and Eire Scholl retail operations and the Scholl business in Latin America. Collectively, these disposals realised £15 million, including the sale of fixed assets and stock, and generated a book loss on disposal of £15 million, which includes the costs of disposal. During the period of our ownership in 2000/1, these operations generated sales of £16 million and an operating profit of £2 million, which will not recur in the current year.

On 13 November 2000, the Group completed its acquisition of the Hibi antiseptic product range from AstraZeneca for £46 million. In the four months to 31 March 2001, this business achieved sales of £11 million. Profits generated were affected by the transitional arrangements with AstraZeneca. In future, results will be reported within medical products in each of our trading divisions.

Underlying results

Figure 1 shows that underlying sales have grown by 6.8 per cent, generating an increased underlying operating profit before exceptional items of £105 million against £93 million in 1999/2000. Before adjusting for currency rate changes, sales grew by £41 million (7 per cent) and operating profits by £11 million (12 per cent).

Sales

Sales for the year totalled £649 million compared with a reported £700 million for the 13 month period, and £614 million for the equivalent 12 months. However, underlying sales for the year to 31 March 2001 were £611 million compared with £572 million for the previous 12 months, giving 6.8 per cent growth.

An analysis of underlying sales by product category for 2000/1 and 1999/2000 is set out in Figure 2. The results for 1999/2000 represent sales for the 12 months to 31 March 2000.

The overall level of trade loading has not changed significantly from 31 March 2000. However, there have been some movements between individual product categories, and any analysis of underlying sales is impacted by movements in trade loading in the period prior to 31 March 2000.

An increase in UK OTC sales was partly offset by a market decline in Italy for Sauber and Mister Baby products.

Figure 2: Underlying sales

	UK and Eire £m	Continental Europe £m	Americas £m	Asia Pacific and ROW £m	Sales for the the year ended 31 March 2001 Total £m	Sales for the the year ended 31 March 2000 Total £m
OTC	54.0	26.4	2.7	2.6	85.7	83.1
Family planning	34.1	55.8	24.8	11.9	126.6	114.8
Footwear	6.4	47.2	-	12.6	66.2	50.3
Footcare	17.0	38.2	-	15.3	70.5	70.6
Consumer healthcare	111.5	167.6	27.5	42.4	349.0	318.8
Wound management	47.9	1.0	-	11.2	60.1	58.6
Continence care	27.9	-	-	1.0	28.9	27.5
Surgical gloves	30.6	7.4	60.3	1.8	100.1	91.5
Medical	106.4	8.4	60.3	14.0	189.1	177.6
Household gloves	7.6	5.8	-	1.2	14.6	16.5
Industrial gloves	11.9	10.9	11.4	0.5	34.7	33.5
House & Ind gloves	19.5	16.7	11.4	1.7	49.3	50.0
Third party	3.5	5.9	0.6	2.2	12.2	10.6
Other	3.0	0.3	-	0.1	3.4	6.6
Retail	–	8.2	-	-	8.2	8.6
Other	6.5	14.4	0.6	2.3	23.8	25.8
Total Group	243.9	207.1	99.8	60.4	611.2	572.2
1999/2000 sales	241.6	190.4	89.2	51.0		

No adjustment has been made for trade loading

Durex condom sales improved as a result of growth in the Italian mass market business, re-acquisition of distribution rights in the Polish and Hungarian markets, incremental growth in US export and branded condom markets and higher in-market sales in the Far East. UK condom sales remained constant overall, as domestic growth was offset by a small decline in export sales.

Scholl footwear sales performed well across all geographical regions. The largest market, Continental Europe, benefited from a combination of improved pre-summer season sell in and an enhanced product range from Scholl Gelactiv. Sales in the Far East grew strongly as a result of acquiring the distribution rights in Thailand and the establishment of a direct sales force in Japan.

Scholl footcare sales showed good growth in Continental Europe and Japan, but declined in the UK as a result of rebalancing the in-market inventories.

The continence care and wound management businesses have both been affected by movements in the trade loading position, but are showing promising underlying growth.

Regent surgical glove sales in the USA grew as volume growth outpaced some erosion in average selling price. Other markets remained static overall as volume gains were matched by price erosion.

Marigold houseglove sales were down across all regions. The largest market, the UK, was affected by price pressure and the impact of a strongly advertised new competitive product. Marigold industrial glove sales showed good growth in a difficult market.

The Group operates in 35 territorial markets and sells products through distributors in over 140 other countries. However, over two thirds of the Group's underlying sales for the year were made by three countries, the UK, USA and Italy. Underlying sales in these countries in the year ended 31 March 2001 are shown in Figure 3, together with details of available external in-market trend data, and estimates of SSL market shares at 31 March 2001.

Gross margin

Underlying gross margin was 60.1 per cent of sales, an increase of one per cent over last year. Gross margin has been improved as the result of the successful realignment of some of the Group's manufacturing, including the transfer of production to the Far East, the sale of the unbranded condom facility in the USA and the continuing upgrade of the manufacturing base in the UK. We believe that the gross margin can be maintained at similar levels in the future, once trade loading has been eliminated, as the downward pressure on prices in certain product categories is compensated by continuing manufacturing efficiencies.

Market development expenditure

Market development expenditure comprises advertising and promotional expenditure on specific products. It does not include direct selling costs, which are reported within administration costs.
In the year to 31 March 2001, underlying market development expenditure amounted to £58 million, or 9 per cent of turnover, this showed a one per cent decrease over the adjusted previous year's expenditure; as certain planned expenditure did not take place. The Group intends to raise its investment in market development in the current and future years to more appropriate levels in order to generate sustainable long-term growth in its portfolio.

Figure 3: Major territories

	Underlying sales £m	Market growth %	SSL market share %
UK:			
OTC	54.0	1.3	14
Family planning	34.1	5.4	87
Footcare	17.0	7.2	53
Wound management	47.9	8.5	22
Continence care	27.9	3.9	31
Surgical gloves	30.6	*	70
Other	32.4	*	*
Total UK	243.9	*	*
USA:			
Family planning	24.8	6.1	16
Surgical gloves [1]	60.3	8.5	30
Other	14.7	*	*
Total USA	99.8	*	*
Italy:			
OTC	18.6	(4.4)	39
Family planning	21.1	(0.6)	59
Footwear	18.7	*	*
Other	16.0	*	*
Total Italy	74.4	*	*
Other territories	193.1	*	*
Total Group underlying sales	611.2	*	*

No adjustment has been made for trade loading

Notes
1 Market data relates to the total surgical glove market
* Market data not available

R&D expenditure
Research and development expenditure amounted to £9.3 million in 2000/1 compared with £8.3 million in 1999/2000. Projects completed this year include the launches of the Biogel Skinsense N range of synthetic surgical gloves, Marigold Futura household and industrial gloves, Scholl Flight Socks and the Durex Ultra thin condom. We intend to increase expenditure on research activity to maintain an active pipeline of new products.

Selling and administration costs
Expenditure in the year amounted to £201 million, a decrease of £1 million (0.5 per cent) over 1999/2000 as cost savings were largely offset by higher levels of activity in a number of trading companies, in particular following changes in distribution arrangements. The Group anticipates that selling and administration costs will increase in the current year as a result of the full year effect of these changes.

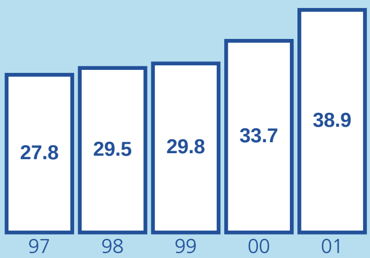
Operating profit
Underlying operating profit amounted to £105 million in the year, an increase of 12.9 per cent over the adjusted comparative number and representing 17.1 per cent of sales. The Group anticipates that, in the current year, the operating margin will decrease significantly, principally as the result of the elimination of trade loading and the planned increase in marketing development expenditure. Thereafter, operating margins should recover and improve as the effects of increased sales materialise.

Half year performance
Sales in the second six months amounted to £364 million, compared with £326 million for the comparative period (as restated). Operating profit before exceptional items amounted to £71 million compared with £60 million. Sales in the first six months of the year were £285 million, and operating profit before exceptional items was £43 million. All of these numbers have been influenced by changes in levels of trade loading at each six month period, such that any analysis of underlying trends is misleading. The Board believes that, once trade loading is eliminated, sales seasonality will be weighted in favour of the second half of the year, but not to any great extent. In the year ending 31 March 2002, the elimination of trade loading is likely to result in a broadly even balance of sales in each half year.

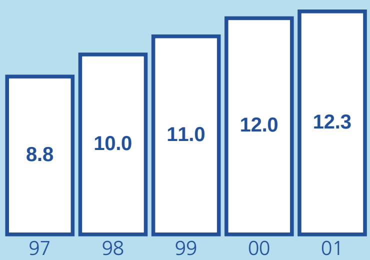
Taxation
The tax charge of £23 million before exceptional items represents a rate of 25 per cent, in line with the previous year. This rate is below the prevailing rates in the Group's principal operating territories as a result of tax allowances on prior year acquisitions and other factors. Based on current expectations and existing tax legislation, the Group would expect the effective rate to rise towards the UK effective rate of 30 per cent over the medium term. The tax credit on exceptional items amounted to £11 million.

Earnings and dividends
Profit after tax but before exceptional items was £69 million compared with £61 million in the corresponding 12 month period in 1999/2000 resulting in a 12 per cent increase in basic earnings per share to 36.3p. Basic earnings per share after exceptional items was 13.5p compared with 39.4p loss in the 12 months to 31 March 2000.

The weighted average number of shares in issue of 188.7 million increased by 0.3 per cent. The final dividend proposed by the Directors is 8.4p per share, which results in a total for the year of 12.3p per share, an increase of 2.5 per cent over the total paid in respect of the 13 months to 31 March 2000. The dividend is covered 2.9 times by earnings before exceptional items.



Adjusted earnings per share (pence) before exceptional items



Dividend per share (pence)

Cashflow and investing activities

The Group generated funds from operations in the year of £134 million. Resources absorbed by working capital, excluding the effects of foreign exchange, were £28 million so that operating activities generated £106 million before exceptional cash spend of £45 million.

Capital expenditure during the second half of the year was £34 million, bringing the expenditure in the full year to £52 million (2000: £32 million). Capital expenditure is expected to be lower in future years as significant manufacturing projects approach completion.

Investments in intangible assets represented the acquisition of goodwill, knowhow and trademarks relating to the Hibi brand and the footcare technology sharing agreement with Schering Plough.

Financial condition

Shareholders' funds at 31 March 2001 amounted to £55 million, the same as at 31 March 2000.

Net borrowings at 31 March 2001 were £381 million compared with £279 million at 31 March 2000.

Interest paid in the period amounted to £25 million, which was covered 4.7 times by operating profit before exceptional items (1999/2000: £19 million, covered 5.4 times).

Litigation

As explained in note 28 to the financial statements the Group, along with most other suppliers of medical gloves, is engaged in latex litigation in the USA in relation to allegations of the development of sensitivities to natural rubber latex. The Directors have confidence in the high quality gloves produced by the Group and believe it has defences available.

Capital structure and treasury policy

Financial Reporting Standards

FRS 13 requires that certain disclosures relating to financial instruments are given in the financial statements, in order to provide information about the impact of financial instruments on the Company's risk profile, how the risks arising may affect the entity's performance and financial condition and how those risks are being managed. The impact of such instruments is explored further in note 31 on pages 56 to 58.

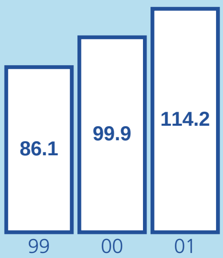
Risk management

The Board has established a Treasury Committee to review treasury activities and to ensure that the written policies covering treasury risk management remain relevant and complete. The main financial risks faced by the Group are foreign exchange risk, interest rate risk and liquidity risk.

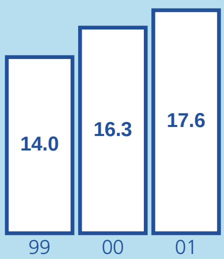
These risks are managed in accordance with the Board established policies which are summarised below. All financial instruments used by the Group are approved by the Board. Group Treasury reports on a regular basis to members of the Board and is subject to periodic review by both internal and external audit teams.

Foreign exchange risk

The nature of the Group's trading activities, in particular the sourcing of raw materials from various overseas markets, the international location of production facilities and the sale and distribution of finished goods through the world, generates transactional foreign exchange exposures. The Group's foreign exchange policy requires that all trade generated foreign exchange exposures should be centralised in accordance with prescribed procedures and timetables. Hedging is then put in place using forward contracts and options usually for a period of 12 months.



Group operating profit (£m) before exceptional items



Group operating profit (%)

The Group's major translational exposures, relating to investments in overseas companies, are hedged on a selective basis to reduce the effect of currency movement on the Group's consolidated balance sheet. Hedges are executed through the raising of debt denominated in the currency of such exposure and by using forward foreign exchange contracts or cross currency swaps. Details of the currency analysis of net financial assets can be seen in note 31(b).

Interest rate exposure

The aim of the Board-approved policy relating to interest risk management is to reduce the impact of interest rate fluctuations on the Group's net interest expense to acceptable levels. This is achieved through balancing the ratio of fixed or hedged debt to those financial liabilities with floating interest. Board-approved instruments used to hedge this exposure include interest rate swaps, interest rate options and forward rate agreements. At the period end after taking into account interest rate derivatives the proportion of gross borrowings at fixed or hedged rates was 51 per cent at a blended rate of 7.3 per cent. Details of the interest rate analysis can be seen in note 31(a).

Liquidity risk

The primary objective of Group Treasury policy is to ensure that the Group is able at all times to meet its financial commitments as and when they fall due. To this end Group Treasury has responsibility for the management of cash and liquid resources throughout the Group and ensures that the Group has sufficient headroom in its undrawn committed facilities to meet any reasonable fluctuation in funding requirement. As detailed in note 31(c) the Group's total undrawn committed facilities at year end was £42m.

Garry Watts
Finance Director

Board of Directors

Executive Directors

Brian Buchan
Chief Executive Officer 49
Appointed Chief Executive of SSL International plc in March 2001. Previously an Officer of Procter & Gamble, and President of its Feminine Care global operations, Brian has worked extensively in Europe, the Far East and North America.

Garry Watts
Group Finance Director 44
Joined SSL International plc as Group Finance Director in February 2001. Previously an Executive Director of Celltech plc and Finance Director of Medeva plc. Garry is a member of the Board of the Medicines Control Agency.

Steven Eastwood
Group Managing Director, Asia Pacific 49
Joined Scholl PLC in 1983, having held senior marketing positions in Cadbury Schweppes and Beechams. Became an Executive Director in 1995 and appointed to the SSL Board in April 2000.

Andrew Slater
Group Managing Director, Americas 53
Joined LIG in 1982, since which Andrew has held a number of senior management positions. Appointed to the SSL Board in June 1999.

Company Secretary

Jonathan Jowett 38
Appointed in June 1999. Qualified as a solicitor in 1989, and has worked in the chemical, FMCG and engineering sectors.

Non-Executive Directors

Stuart Wallis
Non-Executive Chairman 55
Appointed Chairman of Scholl PLC in 1996. Also Chairman of Communisis plc, Protherics plc, and a number of private companies.

Nicholas Hodges
Non-Executive Deputy Chairman 61
Joined LIG in 1982, becoming Chief Executive in 1993. Also Non-Executive Deputy Chairman of Taylor Nelson Sofres plc.

Bernd Beetz
Non-Executive Director 50
Appointed Non-Executive Director in March 2001. Bernd is CEO of Coty Inc based in New York prior to which he was President and CEO of Parfums Christian Dior and before that a regional Vice-President of Procter & Gamble.

Timothy Howden
Non-Executive Director 64
Appointed Non-Executive Director of Seton Scholl in 1998. Previously CEO of Albert Fisher North America and MD of Rank Hovis McDougall plc. Currently a Non-Executive Director of Finning International Inc Canada, Hyperion Insurance Group Ltd and Non-Executive Chairman of Benchmark Dental Laboratories Ltd.

Rodney Sellers
Non-Executive Director 54
Appointed Non-Executive Director of Seton Healthcare in 1997. Previously CEO of British Vita plc. Currently Non-Executive Chairman of Ultraframe plc, and a Non-Executive Director of James R Knowles plc and a number of other companies.

Alain Strasser
Non-Executive Director 53
Appointed Non-Executive Director in November 2000. Alain has held various senior positions for both Anglo Dutch and North American multinationals.

Roger Thomas
Non-Executive Director 59
Appointed Non-Executive Director in 1998. Previously an Executive Director of Black and Decker.


Stuart Wallis
Brian Buchan
Garry Watts


Nicholas Hodges
Andrew Slater
Bernd Beetz
Steven Eastwood


Timothy Howden
Roger Thomas


Alain Strasser
Jonathan Jowett
Rodney Sellers

Financial Contents

Corporate Governance

Combined Code

The Company is committed to achieving high standards of corporate governance throughout the Group. The Board considers that it has complied with the Code provisions set out in Section 1 of the Combined Code throughout the year.

Despite achieving compliance with the principles in the Combined Code, the Company has discovered a sustained and systematic circumvention of internal controls, which has given rise to the overstatement of sales and profit in previous financial periods, the details of which are set out in notes 2 and 33 to the financial statements.

In this light, any judgement as to the effectiveness of those internal controls might be misleading. Nevertheless, the way in which the controls were overcome is the subject of specific investigation, the results of which will be used to increase levels of reasonable assurance against material misstatement or loss.

The Board

The Board leads and maintains full and effective control over the Company's activities. The effectiveness of the Board is supported by:

- A balance between Executive and Non-Executive Directors. In addition to the Chairman, the Board consists of four Executive and six Non-Executive Directors. All the Non-Executive Directors are considered independent including Nicholas Hodges, who was formerly Chief Executive of London International Group plc before it joined the Group. The Company believes that despite this link, Nicholas Hodges has an objective view given the nature of the Company's business. Rod Sellers is the senior independent Non-Executive Director;
- The separation of the roles of Chairman and Chief Executive;
- During the financial year, eight Board meetings were held at which strategy was set, operational performance monitored and reviewed against plan and new developments were considered within the Company's corporate and strategic objectives. There were also a number of meetings at which special business was considered, including the constitution of the Board, and financial performance;
- The Board has formally set down matters reserved for its approval, including acquisitions and disposals, major capital expenditure, the annual budget and the treasury policy. In addition, it has also approved a detailed delegation of authority matrix covering a wide range of responsibilities;
- There is a formal and comprehensive budgeting system covering the whole Group. This is reviewed by the Executive Directors on a regular basis and is revised in-line with ongoing forecasts throughout the year. Monthly reporting of actual results is compared to budget and forecast and any significant variances are examined by the Executive Directors and remedial action taken where required.

Details of Directors' remuneration are included in the Remuneration Report on pages 32 to 35.

Board Committees

The Board has established four principal committees, which meet on a regular basis. The composition and role of each Committee is as follows:

The Audit Committee normally meets twice per year and reviews the interim and full year financial statements, the system of internal control and the external and internal audit process including the adequacy of resourcing for the internal audit function. The Committee is chaired by Rod Sellers and comprises all the Non-Executive Directors. In attendance are the Group Finance Director, the Company Secretary, the Director of Internal Audit and other senior members of the Finance function and representatives from the external auditors. The Audit Committee receives regular reports from both internal and external audit.

The Remuneration Committee comprises all the Non-Executive Directors and is chaired by Tim Howden. The Group Human Resources Director attends as Secretary, and invitations are extended to the Chief Executive and Company Secretary. The Committee determines remuneration policy and approves contractual terms, salaries and incentives for Executive Directors and certain senior executives.

The Nomination Committee comprises the Chief Executive and all the Non-Executive Directors. The Committee advises on Board appointments, as required, and is chaired by Roger Thomas.

The Risk Management Committee comprises all the Executive Directors and senior Group and Divisional management and is chaired by the Group Finance Director. The Committee meets quarterly and reviews the effectiveness of the Group's risk management process. Each quarter, divisional risk matrices are reviewed and updated and any changes are reflected in the consolidated Group matrices. The Director of Internal Audit tracks the ownership of risks, the severity and likelihood of the risk materialising, the controls in place to mitigate the risk and the further actions necessary with an associated due date. The Audit Committee receives a report on the operational effectiveness of the Risk Management Committee, and Rod Sellers, as Chairman of the Audit Committee, has a standing invitation to meetings.

Internal Control

The Board is responsible for the maintenance of the Group's system of internal control and for reviewing its effectiveness. This includes financial, operational, and compliance controls together with risk management. The controls are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

There is a continuous process for identifying, evaluating and managing any significant risks faced by the Group. This has been in place for the year under review and up to the date of the circulation of the Report & Accounts. This process is regularly reviewed by the Board.

Following publication in September 1999 by the Institute of Chartered Accountants in England and Wales of its report entitled 'Internal Control: Guidance for Directors on the Combined Code' ("the Turnbull Report"), the Board has reviewed the effectiveness of the system of internal control and is confident that full compliance with the Turnbull Report has been maintained. Key elements of this review include:

- reviewing the updated Group and Divisional risk matrices from the Risk Management Committee assisted by an ongoing review of internal controls by the Internal Audit function in line with the audit plan agreed by the Audit Committee and Group Finance Director.;
- ensuring Group policies and procedures are in place for all areas considered at risk;
- requiring a 'Letter of Assurance' from all statutory business units within the Group, stating compliance with Group policies, identification of business risks and internal control confirmation;
- consideration of reports from internal and external audit on the system of internal control and material control weaknesses;
- requiring positive confirmation from all senior employees that they have complied with the Group's policy on Standards of Business Conduct;
- ensuring each business unit completes an updated Control Risk Self Assessment, which is centrally collated and reviewed;
- assessing the year-end reporting process throughout the Group;

The results of the investigation referred to above will be incorporated into future reviews of the effectiveness of internal controls.

Going Concern

Having made appropriate enquiries, the Board is satisfied that the Group has adequate resources to continue in business for the foreseeable future. Therefore, the going concern basis continues to be appropriate in preparing the financial statements.

Shareholder Relations

Throughout the year and at appropriate times, particularly following the announcement of interim and full year results, the Company updates institutional shareholders and analysts in a series of presentations and meetings, co-ordinated by the Investor Relations Department. The importance of maintaining a regular dialogue with these shareholders is recognised in order to ensure that the Company's strategy is understood and that concerns are addressed in a constructive manner.

The main source of information for the private investor is the Report and Accounts, which communicates key facts about the Company's performance in a clear and concise manner. All shareholders are invited to attend the Company's Annual General Meeting and can raise issues with the Board concerning the Company's operations and performance. Investor information, including copies of these and previous Reports and Accounts, press releases, analyst presentations, share price performance, financial results and answers to frequently asked questions, is available on the Company's website www.ssl-international.com.

Directors' Report

Directors' Report

The Directors present their annual report and audited financial statements for the year ended 31 March 2001.

Activities

The principal activities of the Group are the manufacture and distribution of consumer healthcare products, medical products and household and industrial gloves. Details of principal acquisitions during the year are shown in note 23 to the Financial Statements.

Research and Development (R&D)

The Group's R&D division creates and develops products to both support market requirements and to promote demand. Competitors' products are also examined to ensure that the Group's intellectual property rights are not infringed. During the year the Group spent £9.3 million on R&D (2000: £9.8 million for 13 months).

Results and Dividend

The results for the year are set out in the Consolidated Profit and Loss Account on page 38. An interim dividend of 3.9p per ordinary share was paid on 26 January 2001 and the Directors recommend a final dividend of 8.4p per ordinary share, making a total for the year of 12.3p. If approved, the final dividend will be paid on 1 August 2001 to shareholders on the register at 15 June 2001. Dividends on the shares held by the Scholl Employee Trust and the Seton Group ESOP are waived.

Directors and their Interests

The Directors are listed on page 26.

During the year, Colin Brown (Managing Director – Northern Europe), Iain Cater (Chief Executive) and Paul Sanders (Group Finance Director) resigned as Directors. Brian Buchan and Garry Watts were appointed as Chief Executive and Group Finance Director respectively, and Alain Strasser and Bernd Beetz were appointed as Non-Executive Directors. Brian Buchan and Garry Watts both have two year notice periods in their service contracts, which reduce to one year after an initial two years service. All Non-Executive Directors are appointed for fixed terms of 12 months, reviewed annually by the Board.

Roger Thomas and Nicholas Hodges will resign as Directors with effect from 31 July 2001.

Graham Collyer and Dieno George resigned as Directors on 29 May 2001.

In view of their notice periods the unexpired term of the service contracts of Steve Eastwood and Andrew Slater is 24 months. No Director has a service contract that is terminable by the Company on more than 2 years' notice.

Directors' interests in the ordinary share capital of the Company are shown in the Remuneration Report. During the year, the following transactions occurred:

Director	Date	Shares Sold	Shares Purchased
C. C. C. Brown	05.4.00		1,858
	22.5.00		3,023*
B. J. Buchan	19.3.01		40,000
I. C. D. Cater	29.11.00		120,789*
G. J. Collyer	29.11.00		33,000*
S. Eastwood	06.4.00		8,000
	27.2.01		5,000
D. George	21.7.00	138,400	75,000*
	29.11.00		120,000
	5.3.01		15,000
N. R. Hodges	22.6.00	19,546	
T. S. Howden	21.3.01		2,750
A. Slater	27.3.01		5,000
A. Strasser	27.2.01		20,000
R. H. Thomas	3.8.00	9,000	
G. Watts	19.3.01		10,000

*Exercise of share options

Otherwise there has been no change in the Directors' interests between 31 March 2001 and 5 June 2001.

No Director had at any time during the year a material interest in any other contracts of significance with the Group.

Retirement by Rotation and Election of Directors

Three of the Non-Executive Directors are due to resign as such at the end of July 2001, and accordingly they will not stand down and offer themselves for re-election at the AGM. Tim Howden, who is Chairman of the Remuneration Committee, will offer himself for re-election as a Non-Executive Director, and Andrew Slater and Steve Eastwood will be proposed for re-election as Executive Directors.

The Board has appointed four new Directors in the year, each of whom will stand down and be proposed for election by shareholders. Those Directors are Brian Buchan and Garry Watts (Chief Executive and Group Finance Director respectively) and Alain Strasser and Bernd Beetz as Non-Executive Directors.

Share Capital
Details of the shares issued during the year and outstanding options are given in note 20 to the financial statements.

Substantial Shareholdings
In addition to those of the Directors the Company has been notified of the following interests in 3 per cent or more of its issued ordinary share capital at 1 June 2001:

	Number of shares	% of shares
F M R Corp and Fidelity International Limited and their direct and indirect subsidiaries	15,131,036	8.00
M & G Investment Management	10,215,439	5.40
Gartmore Investment Management	9,871,481	5.22
Royal & Sun Alliance	7,434,272	3.93
Merrill Lynch Investment Managers	6,756,574	3.57
UBS Asset Management	6,611,724	3.50
Vanguard Investment Management	6,413,646	3.39

Litigation
Suppliers of medical gloves in the USA, including Group companies, are involved in a number of lawsuits alleging the development of sensitivities to natural rubber latex. The Directors are confident that defences are available, and that a substantial portion of defence costs and proven liability (if any) will be covered by insurance. Further information is given in note 28 to the financial statements.

The Group continues to defend robustly an action by Allegiance Healthcare Corporation in connection with the sale of Regent medical gloves and is pursuing counter-claims.

Employees
The Group maintains a strong communications programme and the Company newsletter "Newsline" was issued three times in the year. Briefing and consultation procedures exist throughout the Group to inform employees on matters of concern to them and to provide opportunities for comment and discussion.

Profit related bonus schemes were in operation during the year for certain employees and a further offer was made to eligible employees under the "Save As You Earn" Share Option ("sharesave") Scheme. The Company will seek approval from shareholders at the Annual General Meeting on 12 July 2001, for the implementation of a sharesave plan directed at its global workforce. Full details are given in the Circular being sent to shareholders with the Notice of Annual General Meeting.

The Group is committed to an active Equal Opportunities Policy which means that people are assessed for selection, development, appraisal or promotion without regard to gender, race, ethnic origin, religion, disability or age. The Group is committed to monitor and review this policy on a regular basis.

Whenever practicable, employees who become disabled during their working lives are retained in employment and given assistance with necessary rehabilitation and training.

Creditor Payment Policy
Payments to suppliers are made in accordance with agreed terms.
The Company itself had no trade creditors at 31 March 2001 (2000: £nil).

Charitable and Political Donations
There were no charitable or political donations made during the year (2000: £0.4 million).

Auditors
In accordance with Section 385 of the Companies Act 1985 a resolution proposing the re-appointment of Arthur Andersen as auditors to the Company will be put to the Annual General Meeting.

By order of the Board.

Jonathan D Jowett
Group Secretary

5 June 2001

Remuneration Report

Remuneration Committee

The Committee complied with the Combined Code of Best Practice on Corporate Governance throughout the year and has comprised all of the Non-Executive Directors. The Committee is chaired by Tim Howden, who offers himself for re-election at this year's AGM. The Group Human Resources Director attends as Secretary. Attendance by invitation is extended to the Chief Executive and the Company Secretary.

Remuneration Policy

The Committee's primary aim is to develop total compensation plans that will attract, retain and motivate senior executives who will maintain and enhance the performance of the Group. The Committee determines remuneration by taking account of general external comparisons, other relevant information and the perceived requirements of the Group. Advice is available from internal and external sources.

Executive Directors

In line with the Committee's policy the termination periods in the service contracts of Brian Buchan and Garry Watts are two years reducing to one year after two years' service. The service contracts of other Executive Directors remain terminable on periods of two years' notice by the Company. The Committee, having again reviewed the two year notice periods in the service contracts of Steve Eastwood and Andrew Slater, believes that it is not appropriate at this time to seek to change these. There are plans to review this on an on-going basis and it is intended that future appointments will be terminable on 12 months' notice. The main elements of Executive Directors' remuneration are as follows:

- **Salaries** are related to those in companies of comparable size and international complexity and to the abilities, responsibilities and performance of the individual Directors. They are normally reviewed annually.

- The Company operates an **Annual Bonus Plan** for Executive Directors, paid in cash, based on the achievement of targeted increases in the earnings per share, organic sales growth of the Group and Group working capital targets.

- **Pension Benefits** are provided by means of payments, which vary according to age, mainly to the SSL UK Pension Scheme, a contracted in defined contribution scheme ("the SSL Scheme") and money-purchase executive pension plans. The costs of the Company's contributions to these schemes are included on page 33.

  Colin Brown was not a member of the SSL Scheme, but the Group made payments of 17 per cent of the Inland Revenue earnings cap into his own money purchase pension plan.

  Andrew Slater is a member of the LIG Pension Scheme, a defined benefit scheme. This scheme was closed during the year as part of the Group's UK policy of providing defined contribution benefits to all employees including Directors. Andrew Slater has transferred into the SSL Scheme and details of contributions are shown on page 33.

- **Long-term incentives** are considered by the Company to be an important factor in motivating the Directors and senior management. The Remuneration Committee recommended to the trustees of the scheme the first award under the SSL International Long-Term Incentive Plan ("LTIP") on 4 July 2000.

  The LTIP is by invitation from the Committee to a limited number of key senior executives with awards only being made in years when a cash bonus is paid. Participants can take up to 50 per cent of their gross bonus in the Company's shares at the current market price at award date, which are retained by the trustees of the scheme for three years and then transferred to the participant providing he/she is still in service. Performance shares are awarded on a matched basis and will again vest after three years subject to performance targets being met.

- **Non-Executive appointments.** It has been determined that, following agreement with the Chairman, Executive Directors would be permitted to hold one Non-Executive Board appointment. In such circumstances, each Director is allowed to retain the appropriate fees. If, after discussion with the Chairman, further appointments were agreed the fees would normally be payable to the Company.

Non-Executive Directors

Stuart Wallis has a service contract and a consultancy agreement which entitles him to fees totalling £100,000 per annum, a company car and fuel. The service contract and consultancy agreement will expire on 31 July 2001.

Stuart Wallis, Nicholas Hodges and Roger Thomas are all due to resign as Non-Executive Directors on 31 July 2001.

The terms of office of Tim Howden and Rod Sellers have been extended for a further 12 months. The Board sets the remuneration of Non-Executive Directors by reference to general external comparison. None of the Non-Executive Directors has been granted any ongoing long-term incentives.

Directors' Remuneration

	Salaries & Fees £'000	Annual bonuses £'000	Benefits £'000	Sub-total £'000	Pension contributions £'000	**2001 Total £'000**	2000 Sub-total £'000	Pension contributions £'000	2000 Total £'000
Directors									
Non-Executive Chairman									
S. M. Wallis	100	–	12	112	–	**112**	127	–	127
Executive									
C. C. C. Brown (to 31.10.00)	117	–	8	125	16	**141**	274	18	292
B. J. Buchan (from 12.3.01)	24	–	1	25	–	**25**	–	–	–
I. C. D. Cater (to 19.2.01)	310	–	21	331	49	**380**	443	52	495
G. J. Collyer	193	–	12	205	22	**227**	238	23	261
S. Eastwood	124	–	28	152	26	**178**	–	–	–
D. George	242	–	17	259	31	**290**	306	33	339
P. A. Sanders (to 1.12.00)	120	–	13	133	10	**143**	224	14	238
A. Slater	238	–	62	300	53	**353**	260	40	300
G. Watts (from 5.2.01)	44	–	3	47	–	**47**	–	–	–
	1,412	–	165	1,577	207	**1,784**	1,745	180	1,925
Non-Executive									
B. Beetz (from 27.3.01)	–	–	–	–	–	**–**	–	–	–
N. R. Hodges	18	–	1	19	–	**19**	20	–	20
T. S. Howden	25	–	–	25	–	**25**	30	–	30
R. H. Sellers	30	–	–	30	–	**30**	27	–	27
A. Strasser (from 23.11.00)	9	–	–	9	–	**9**	–	–	–
R. H. Thomas	28	–	–	28	–	**28**	25	–	25
	110	–	1	111	–	**111**	102	–	102
Total	1,622	–	178	1,800	207	**2,007**	1,974	180	2,154

Notes:

1. Remuneration shown above only relates to the period for which each Director served during the period, including proportionate amounts for pension contributions which are paid in lump sums.
2. All figures shown for 2000 reflect the 13 month period to 31 March 2000 except for Andrew Slater and Nicholas Hodges where they relate to the period from date of appointment.
3. Dieno George's salary figure includes a special supplementary payment of £15,000 received for his temporary duties as Acting Chief Executive.
4. Andrew Slater's salary is paid in $ in the United States. His benefits include assignment related costs covering accommodation and family travel to and from the USA.
5. The pension arrangements for Garry Watts and Brian Buchan were not finalised by 31 March 2001.
6. No fees were paid to Bernd Beetz for the 4 days worked during the financial year.
7. Iain Cater ceased to be a Director on 19 February 2001, but he remained in employment (on paid leave of absence) until 29 May 2001. No compensatory payment has been made.

Directors' Pensions

The following Directors have entitlements under a Group defined benefit pension scheme, in which further service-related benefit ceased on 31 August 1995:

	Pension accrued during the period (excluding inflation) £	Transfer value of increase (excluding inflation) £	**Accrued pension per annum at 31 March 2001 £**
I. C. D. Cater (to 19.2.01)	–	–	**73,334**
G. J. Collyer	3,700	26,300	**28,750**
D. George	1,291	11,100	**30,444**

The accrued pension shown is that which would be paid annually on retirement based on salaries up to that period end.

For the 13 month period ending 31 March 2000 the figures are restated as follows:

	Pension accrued during the period (excluding inflation) £	Transfer value of increase (excluding inflation) £	**Accrued pension per annum at 31 March 2000 £**
I. C. D. Cater	22,361	254,800	**73,334**
G. J. Collyer	6,557	53,200	**24,250**
D. George	4,632	46,000	**28,222**

The following Director has entitlements under the London International Group UK Pension Scheme (defined benefit):

	Pension accrued during the period (excluding inflation) £	Transfer value of increase (excluding inflation) £	Accrued pension per annum at 31 March 2000 £	**Accrued pension per annum at 31 March 2001 £**
A. Slater	9,500	81,400	74,054	**85,998**

Notes:

1. The pension entitlement shown is that which would be paid annually on retirement based on service to the year end.
2. As noted previously the LIG Scheme was closed during the year.

No other Director obtained pension entitlements in defined benefit schemes during the period.

Remuneration Report continued

Directors' Interests

The holdings of Directors (including those of their families) in the ordinary share capital of the Company at the period end were:

	Note	31 March 2001 Beneficial Shares	31 March 2001 Non–beneficial Shares	31 March 2000 Beneficial Shares	31 March 2000 Non–beneficial Shares
S. M. Wallis		**9,582**	**–**	9,582	–
I. C. D. Cater	#	**689,467**	**–**	568,678	–
C. C. C. Brown	#	**31,233**	**–**	26,352	–
G. J. Collyer		**124,294**	**–**	91,294	–
D. George		**385,000**	**–**	313,400	–
P. A. Sanders	#	**1,000**	**–**	1,000	–
N. R. Hodges		**101,844**	**–**	121,390	–
T. S. Howden		**5,816**	**–**	3,066	–
R. H. Sellers		**10,000**	**–**	10,000	–
R. H. Thomas		**1,000**	**–**	10,000	–
A. Slater		**15,198**	**–**	10,198	–
B. J. Buchan		**40,000**	**–**	–	–
G. Watts		**10,000**	**–**	–	–
S. Eastwood		**61,733**	**–**	48,733	–
A. Strasser		**20,000**	**–**	–	–

Notes:
# indicates the number of shares up to date of leaving the Board – 31 October 2000 in the case of Colin Brown, 1 December 2000 in the case of Paul Sanders and 19 February 2001 in the case of Iain Cater.

Directors' interests in the Group's share option schemes are as follows:

	Note	As at 31/3/00	Granted in the period	Exercised in the period	As at 31/3/01	Exercise price (p)	Exercisable From	Exercisable To
I. C. D. Cater								
1990 Scheme		30,789	–	(30,789)	**–**			
1996 Scheme		17,500	–	(17,500)	**–**			
		17,500	–	(17,500)	**–**			
		27,500	–	(27,500)	**–**			
		27,500	–	(27,500)	**–**			
	(1) #	18,500	–	–	**18,500**	756.5	26.5.01	26.5.05
	(2) #	18,500	–	–	**18,500**	756.5	26.5.01	26.5.05
	(1) #	50,000	–	–	**50,000**	770.0	21.6.02	21.6.06
	(1) #	–	29,346	–	**29,346**	742.5	14.6.03	14.6.07
SAYE Scheme	#	1,742	–	–	**1,742**	396.0	1.11.01	1.5.02
	#	2,000	–	–	**2,000**	345.0	1.11.02	1.5.03
	#	517	–	–	**517**	652.0	1.2.04	1.8.04
		212,048	29,346	(120,789)	**120,605**			
C. C. C. Brown								
1986 Scheme	#	95,820	–	–	**95,820**	336.5	10.4.99	10.4.06
LTIP	#	15,011	–	–	**15,011**	477.5	18.4.00	18.4.07
	#	15,011	–	–	**15,011**	455.5	30.9.00	30.9.07
SAYE Scheme	#	3,023	–	(3,023)	**–**			
		128,865	–	(3,023)	**125,842**			
G. J. Collyer								
1990 Scheme	(3)	3,850	–	–	**3,850**	770.0	21.6.02	21.6.09
1996 Scheme		16,500	–	(16,500)	**–**			
		16,500	–	(16,500)	**–**			
	(1)	11,000	–	–	**11,000**	756.5	26.5.01	26.5.05
	(2)	11,000	–	–	**11,000**	756.5	26.5.01	26.5.05
	(1)	21,150	–	–	**21,150**	770.0	21.6.02	21.6.06
	(1)	–	34,727	–	**34,727**	742.5	14.6.03	14.6.07
SAYE Scheme		1,742	–	–	**1,742**	396.0	1.11.01	1.5.02
		2,000	–	–	**2,000**	345.0	1.11.02	1.5.03
		517	–	–	**517**	652.0	1.2.04	1.8.04
		84,259	34,727	(33,000)	**85,986**			
D. George								
1990 Scheme	(3)	–	4,000	–	**4,000**	742.5	14.6.03	14.6.07
1996 Scheme		15,000	–	(15,000)	**–**			
		15,000	–	(15,000)	**–**			
		22,500	–	(22,500)	**–**			
		22,500	–	(22,500)	**–**			
	(1)	16,000	–	–	**16,000**	756.5	26.5.01	26.5.05
	(2)	16,000	–	–	**16,000**	756.5	26.5.01	26.5.05
	(1)	35,000	–	–	**35,000**	770.0	21.6.02	21.6.06
	(1)	–	3,019	–	**3,019**	742.5	14.6.03	14.6.07
SAYE Scheme		1,742	–	–	**1,742**	396.0	1.11.01	1.5.02
		2,000	–	–	**2,000**	345.0	1.11.02	1.5.03
		517	–	–	**517**	652.0	1.2.04	1.8.04
		146,259	7,019	(75,000)	**78,278**			

Directors' Interests (continued)

	Note	As at 31/3/00	Granted in the period	Exercised in the period	**As at 31/3/01**	Exercise price (p)	Exercisable From	Exercisable To
P. A. Sanders								
1990 Scheme	#	6,500	–	–	**6,500**	455.5	27.11.00	27.11.07
1996 Scheme	(1) #	23,000	–	–	**23,000**	756.5	26.5.01	26.5.05
	(2) #	9,000	–	–	**9,000**	756.5	26.5.01	26.5.05
	(1) #	22,500	–	–	**22,500**	770.0	21.6.02	21.6.06
	(1) #	–	37,045	–	**37,045**	742.5	14.6.03	14.6.07
SAYE Scheme	#	1,035	–	–	**1,035**	652.0	1.2.04	1.8.04
	#	641	–	–	**641**	604.0	1.4.03	1.10.03
		62,676	37,045	–	**99,721**			
A. Slater								
1984 Scheme		1,638	–	–	**1,638**	1076.5	27.6.94	27.6.01
1991 Scheme		2,057	–	–	**2,057**	822.0	24.6.95	24.6.02
		6,931	–	–	**6,931**	873.0	8.12.95	8.12.02
		2,521	–	–	**2,521**	413.8	15.12.96	15.12.03
		105	–	–	**105**	346.1	25.7.97	25.7.04
		17,042	–	–	**17,042**	363.1	14.12.97	14.12.04
		16,650	–	–	**16,650**	522.4	6.2.99	6.2.06
		16,264	–	–	**16,264**	707.0	4.12.99	4.12.06
	(4)	26,241	–	–	**26,241**	713.4	7.6.00	31.12.01
1996 Scheme	(1)	14,903	–	–	**14,903**	783.5	4.1.03	4.1.07
SAYE Scheme		–	1,584	–	**1,584**	426.0	1.4.06	1.10.06
		104,352	1,584	–	**105,936**			
S. Eastwood								
1996 Scheme	(1)	12,000	–	–	**12,000**	770.0	21.6.02	21.6.06
	(1)	–	35,000	–	**35,000**	742.5	14.6.03	14.6.07
		12,000	35,000	–	**47,000**			
B. J. Buchan								
1996 Scheme	(1)	–	171,664	–	**171,664**	483.5	19.3.04	19.3.08
		–	171,664	–	**171,664**			
G. Watts								
1996 Scheme	(1)	–	75,698	–	**75,698**	483.5	19.3.04	19.3.08
		–	75,698	–	**75,698**			

Notes:
Options marked # indicate the number of options up to date of leaving the Board – 31 October 2000 in the case of Colin Brown, 1 December 2000 in the case of Paul Sanders and 19 February 2001 in the case of Iain Cater.

Exercise of options under the 1990 Scheme is subject to 3 consecutive years of real growth in earnings per share other than those options marked (3) which are subject to 3 consecutive years of growth in normalised earnings per share exceeding the growth in the retail price index by at least an average four per cent per annum.

Exercise of options under the 1996 Scheme is subject to three consecutive years of growth in normalised earnings per share exceeding the growth in the retail price index by at least an average four per cent per annum for those marked (1) and ten per cent per annum for those marked (2). In the latter case, there is also a minimum aggregate normalised earnings per share condition.

From February 1996, grants made under the 1991 Scheme are conditional upon growth in earnings per share exceeding by six per cent per annum the growth in the retail price index over the period between grant and exercise.

Those options marked (4) (grants made under the 1991 LIG Scheme Additional Option provisions) are subject to an annualised growth in earnings per share of at least 10 per cent more than the rate of inflation. The Company decided to terminate the Additional Options part of the said scheme following the merger. The Committee has decided to extend the exercise period to 31 December 2001. Thereafter the options will lapse. Andrew Slater's options over 26,306 shares at 940p lapsed on 31 December 2000 (Additional Options).

On 22 May 2000, Colin Brown exercised sharesave options over 3,023 shares at 322.5p, when the market price of the shares was 677.5p.
On 21 July 2000, Dieno George exercised 'unapproved' options over 45,000 shares at 434p and 30,000 shares at 470p, when the market price of the shares was 749p. On 29 November 2000, Iain Cater exercised 'approved' options over 30,789 shares at 370.3p and 'unapproved' options over 55,000 shares at 434p and 35,000 shares at 470p and Graham Collyer exercised 'unapproved' options over 33,000 shares at 434p, when the market price of the shares was 477.5p.

Andrew Slater's sharesave options over 3,215 shares at 536.5p have lapsed.

There are no performance criteria for exercise of options under the SAYE schemes.
The market price of the Company's shares was 480p on 31 March 2001 and ranged from 409p to 837.5p during the year.

Following shareholders' approval the first awards under The SSL International Long–Term Incentive Plan were made in July 2000 as follows:

	Performance shares	Deferred shares
I. C. D. Cater (to 19.2.01)	6,271	6,271
G. J. Collyer	3,484	3,484
D. George	4,181	4,181
P. A. Sanders (to 1.12.00)	3,484	3,484
A. Slater	4,541	4,541
S. Eastwood	3,484	3,484

The vesting of the performance shares is subject to the earnings per share increasing by inflation plus 5 per cent over a continuous period of at least three years.

Directors' Responsibilities

Directors are required by UK company law to prepare financial statements, which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the results of the Group for the year. The financial statements must be prepared in compliance with Companies Act 1985 and in accordance with applicable accounting standards.

The Directors are satisfied that the Group has adequate resources to continue in operational existence in the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Suitable accounting polices, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in their preparation.

It is the Directors' responsibility to maintain proper accounting records which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure that the financial statements compy with the Companies Act 1985. The Directors also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

Report of the Auditors

To the Shareholders of SSL International plc

We have audited the financial statements on pages 38 to 59 which have been prepared under the historical cost convention and the accounting policies set out on pages 42 to 43. We have also examined the amounts disclosed relating to the emoluments, share options, long-term incentive scheme interests and pension benefits of the Directors which form part of the remuneration report on pages 32 to 35.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report including, as described on page 36, preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the corporate governance statement on page 29 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by 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 Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of Audit Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board except that the scope of our work was limited as explained below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

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

However, as described in notes 2(c) and 33 to the financial statements, during the year the Directors initiated a review of the Group's sales practices, including the appropriateness and timing of the recognition of sales over the last three financial periods, the accounting for sales returns and the appropriateness of the accounting treatment of certain amounts recorded as rebates, discounts and other payments to certain customers. As a result of this review, the Directors have concluded that there were irregularities in the treatment previously afforded to certain sales, returns, credits to customers and stock write offs in the financial periods 1999 to 2001 ("the irregularities") and in correcting these irregularities have restated the financial statements for prior periods. The irregularities which have been identified as a result of this review as attributable to prior periods have been written off by restating reserves brought forward at 1 March 1999 and the profit and loss account for the period ended 31 March 2000. In making this restatement, the Directors have necessarily had to make a number of judgements in estimating the effect of the irregularities on the previous periods' financial statements and on the reserves brought forward at 1 March 1999.

The Directors' investigation of these alleged irregularities is ongoing.

Limitation of scope

In the context of the above ongoing investigation, we have been unable to obtain sufficient evidence to form an opinion as to the appropriateness or completeness of the prior period adjustments, or on the attribution of the transactions and write-offs identified between the current and prior periods.

In certain cases the documentary evidence to determine both the recognition and the timing of certain sales, sales returns, credits to customers and stock write-offs is either incomplete or unavailable. Many of the key management responsible for the transactions in question are no longer with the Group. On the basis of legal advice, the Directors have requested us not to communicate with certain of the Directors and staff who were employed by the Group during the financial years 1999 to 2001. Further, in view of the commercial sensitivity of the customer relationships concerned, we were also asked not to seek confirmation from customers in relation to the specific customer orders concerned or more generally in respect of the trading arrangements in prior periods.

Qualified opinion arising from limitation in audit scope

Except for any adjustment that might have been found to be necessary had we been able to obtain sufficient evidence concerning the appropriateness and completeness of the prior period adjustments, in our opinion the financial statements give a true and fair view of the state of affairs of the Company's and Group's affairs as at 31 March 2001 and of the profit or loss and cash flows of the Company and Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

In respect of the limitation of the scope of our work relating to the appropriateness and completeness of the prior period items, we have not obtained all of the information and explanations that we considered necessary for the purposes of our audit and have been unable to determine whether proper accounting records have been maintained.

In our opinion, the subject matter of the above qualificiation is not material for determining by reference to the financial statements whether the distribution of £15.9 million proposed by the Company is permitted under section 270 of the Companies Act 1985.

Arthur Andersen
Chartered Accountants and Registered Auditors

Bank House
9 Charlotte Street
Manchester
M1 4EU
5 June 2001

Consolidated Profit and Loss Account for the year ended 31 March 2001

	Note	12 months to 31 March 2001 Total £'m	12 months to 31 March 2001 Exceptional items (note 2) £'m	12 months to 31 March 2001 Before exceptional items £'m	13 months to 31 March 2000 Before exceptional items *as restated* (note 2) £'m	13 months to 31 March 2000 Exceptional items *as restated* (note 2) £'m	13 months to 31 March 2000 Total *as restated* (note 2) £'m
Turnover	3	**649.3**	**–**	**649.3**	699.9	–	699.9
Cost of sales		**(270.3)**	**(5.1)**	**(265.2)**	(286.3)	(9.0)	(295.3)
Gross profit		**379.0**	**(5.1)**	**384.1**	413.6	(9.0)	404.6
Distribution costs		**(185.5)**	**(3.8)**	**(181.7)**	(195.5)	(17.1)	(212.6)
Administration expenses		**(113.5)**	**(25.3)**	**(88.2)**	(87.6)	(35.1)	(122.7)
Group operating profit	3-5	**80.0**	**(34.2)**	**114.2**	130.5	(61.2)	69.3
Share of operating profit in associated undertakings		**1.8**	**–**	**1.8**	–	–	–
Total operating profit		**81.8**	**(34.2)**	**116.0**	130.5	(61.2)	69.3
Exceptional items:							
Merger costs		**–**	**–**	**–**	–	(14.1)	(14.1)
Loss on disposal of fixed assets		**–**	**–**	**–**	–	(0.6)	(0.6)
Termination of USA manufacturing activities		**(5.8)**	**(5.8)**	**–**	–	(63.4)	(63.4)
Loss on disposal of subsidiary undertakings, businesses and brands		**(13.7)**	**(13.7)**	**–**	–	–	–
Profit/(loss) on ordinary activities before finance charges		**62.3**	**(53.7)**	**116.0**	130.5	(139.3)	(8.8)
Finance charges (net)	6	**(24.7)**	**–**	**(24.7)**	(19.2)	–	(19.2)
Profit/(loss) on ordinary activities before taxation		**37.6**	**(53.7)**	**91.3**	111.3	(139.3)	(28.0)
Tax on profit/(loss) on ordinary activities	7	**(12.1)**	**10.7**	**(22.8)**	(27.8)	4.4	(23.4)
Profit/(loss) on ordinary activities after taxation		**25.5**	**(43.0)**	**68.5**	83.5	(134.9)	(51.4)
Equity minority interests		**–**	**–**	**–**	(0.2)	–	(0.2)
Profit/(loss) for the financial year		**25.5**	**(43.0)**	**68.5**	83.3	(134.9)	(51.6)
Dividends paid and proposed on equity shares	8	**(23.3)**	**–**	**(23.3)**	(22.6)	–	(22.6)
Retained profit/(loss) for the year	22	**2.2**	**(43.0)**	**45.2**	60.7	(134.9)	(74.2)
Earnings per share (pence)	9						
Basic		**13.5**		**36.3**	44.3		(27.4)
Basic (adjusted)		**16.1**		**38.9**	45.6		(26.1)
Diluted		**13.5**		**36.2**	44.1		(27.4)

The accompanying notes are an integral part of this consolidated profit and loss account.

Consolidated and Company Balance Sheets as at 31 March 2001

		Group		Company	
		31 March 2001	31 March 2000 *as restated* (note 2)	**31 March 2001**	31 March 2000
	Note	**£'m**	£'m	**£'m**	£'m
Fixed assets					
Intangible assets	10	**82.7**	77.6	**–**	–
Goodwill	10	**82.2**	41.3	**–**	–
Tangible assets	11	**154.5**	125.7	**11.9**	9.7
Investments	12	**5.0**	3.5	**350.6**	350.6
Investments in own shares	13	**0.6**	0.3	**0.3**	–
		325.0	248.4	**362.8**	360.3
Current assets					
Stocks	14	**120.9**	100.9	**–**	–
Debtors falling due within one year	15	**249.0**	213.7	**497.3**	329.4
Debtors falling due after more than one year	16	**1.2**	3.1	**–**	–
Cash and deposits		**57.4**	62.4	**3.2**	3.4
		428.5	380.1	**500.5**	332.8
Creditors:					
Amounts falling due within one year	17	**(427.5)**	(292.1)	**(223.4)**	(85.1)
Net current assets		**1.0**	88.0	**277.1**	247.7
Total assets less current liabilities		**326.0**	336.4	**639.9**	608.0
Creditors:					
Amounts falling due after more than one year	18	**(241.3)**	(244.2)	**(222.0)**	(224.7)
Provisions for liabilities and charges	19	**(29.5)**	(37.4)	**(2.2)**	(1.4)
Net assets		**55.2**	54.8	**415.7**	381.9
Capital and reserves – equity					
Called up share capital	20	**18.9**	18.8	**18.9**	18.8
Share premium account	21	**39.2**	35.7	**39.2**	35.7
Other reserves	22	**136.8**	136.8	**357.3**	357.3
Profit and loss account	22	**(139.7)**	(136.5)	**0.3**	(29.9)
Shareholders' funds		**55.2**	54.8	**415.7**	381.9
Equity minority interests	24	**–**	–	**–**	–
Total capital employed		**55.2**	54.8	**415.7**	381.9

The financial statements on pages 38 to 59 were approved by the Board of Directors on 5 June 2001 and were signed on its behalf by:

S.M. Wallis
Chairman

G. Watts
Director

The accompanying notes are an integral part of these balance sheets.

Consolidated Cash Flow Statement for the year ended 31 March 2001

	Note	12 months to 31 March 2001 £'m	13 months to 31 March 2000 £'m
Net cash inflow from operating activities after exceptional items	25(a)	**60.9**	46.8
Dividends received from associated undertakings		**–**	0.3
Returns on investments and servicing of finance			
Interest received		**1.1**	1.3
Interest paid		**(24.6)**	(14.1)
Dividends paid to minority interests		**–**	(0.1)
Net cash outflow from returns on investments and servicing of finance		**(23.5)**	(12.9)
Taxation		**(16.6)**	(16.5)
Capital expenditure and financial investment			
Purchase of intangible fixed assets		**(8.1)**	(1.3)
Purchase of tangible fixed assets		**(46.6)**	(36.7)
Purchase of fixed asset investments		**(0.3)**	–
Sale of tangible fixed assets		**3.3**	6.4
Net cash outflow from capital expenditure and financial investment		**(51.7)**	(31.6)
Acquisitions and disposals			
Purchase of subsidiary undertakings	25(b)	**(1.2)**	(22.8)
Net cash acquired with subsidiary undertakings	25(b)	**–**	0.8
Purchase of product rights, businesses and brands	25(b)	**(47.9)**	(3.0)
Investments in associated undertakings		**–**	(0.6)
Deferred consideration		**(2.3)**	(1.0)
Deferred expenditure		**–**	(4.5)
Sale of product rights, businesses and brands	25(c)	**6.6**	–
Net cash outflow from acquisitions and disposals		**(44.8)**	(31.1)
Equity dividends paid		**(23.2)**	(24.3)
Management of liquid resources	25(d)	**11.1**	(7.4)
Cash outflow before financing		**(87.8)**	(76.7)
Financing			
Issue of ordinary share capital		**3.1**	6.9
Increase in borrowings	25(d)	**92.3**	87.7
Repayment of capital element of finance leases	25(d)	**(0.5)**	(0.7)
Net cash inflow from financing		**94.9**	93.9
Increase in cash in the year	25(d)	**7.1**	17.2

The accompanying notes are an integral part of this cash flow statement.

Consolidated Statement of Total Recognised Gains and Losses for the year ended 31 March 2001

	Note	**12 months to 31 March 2001 £'m**	13 months to 31 March 2000 *as restated* (note 2) £'m
Profit/(loss) for the financial year		**25.5**	(51.6)
Currency translation differences on foreign currency net investments	22	**(5.4)**	(0.5)
Total recognised gains/(losses) relating to the year		**20.1**	(52.1)
Prior period restatement	33	**(14.6)**	
Total recognised gains recognised since last annual report		**5.5**	

Consolidated Reconciliation of Movements in Shareholders' Funds for the year ended 31 March 2001

	Note	**12 months to 31 March 2001 £'m**	13 months to 31 March 2000 *as restated* (note 2) £'m
Profit/(loss) for the financial year		**25.5**	(51.6)
Dividends paid and proposed	8	**(23.3)**	(22.6)
		2.2	(74.2)
Other recognised losses for the year	22	**(5.4)**	(0.5)
Share capital issued		**3.6**	6.9
Goodwill written back on disposals		**–**	35.6
Net addition to/(reduction in) shareholders' funds		**0.4**	(32.2)
Opening shareholders' funds as restated	33	**54.8**	87.0
Closing shareholders' funds		**55.2**	54.8

Note:
Cumulative goodwill written off in respect of acquisitions in prior years amounts to £226.4 million net of realisations. In accordance with FRS 10, goodwill on acquisitions post 1 March 1998 has been capitalised as outlined in note 1(c).

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

1. Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding period.

(a) Preparation of financial statements
The financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards.

(b) Basis of preparation
The Group financial statements consolidate the financial statements of SSL International plc and its subsidiary undertakings drawn up to 31 March 2001. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

For the 13 month period to 31 March 2000 the financial statements were prepared under merger accounting principles set out in FRS 6 following the merger of Seton Scholl and LIG. Under merger accounting the results and cash flows of Seton Scholl and LIG are combined from the beginning of the financial period in which the merger occurred.

In accordance with Section 230(2) of the Companies Act 1985 the Company has elected not to present its own profit and loss account. The profit for the financial year dealt with in the financial statements of the parent company, SSL International plc, is disclosed in note 22.

(c) Acquisitions and disposals
Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised as an intangible asset and written off to the profit and loss account on a straight line basis over its useful economic life, up to a maximum of 20 years.

Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non–monetary assets are recovered through depreciation or sale.

Goodwill arising on acquisitions prior to 28 February 1998 was written off to the profit and loss reserve in accordance with the accounting standard then in force. As permitted by FRS 10, the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

When the Group has acquired shares in other companies by the issue of shares, and the requirements of Section 131 of the Companies Act 1985 have been satisfied, the Group has utilised the merger relief provisions available and the issue of shares has been recorded at the nominal value, any premium being credited to the merger reserve.

(d) Intangible assets
Intangible assets that are acquired and which can be separately identified and valued are capitalised and amortised over their estimated useful economic lives, usually not exceeding 15 years.

Acquired trade marks and patents include the ownership of the Scholl trade name throughout the world, with the exception of the United States of America, Canada, the Caribbean basin and Latin and South America. The Scholl trade name is held at cost and is subject to an annual impairment review to identify any diminution in the recoverable amount of the acquired rights. The Directors believe that the Scholl brand does not have a finite economic life because of its proven value over long periods and its position in the market is sustainable for the foreseeable future.

Intangible assets that are acquired and which cannot be measured independently of goodwill and brands are included and accounted for as part of goodwill.

Capitalised development expenditure is amortised, on a unit of sale basis, over the expected life of the product.

(e) Tangible fixed assets
No fixed assets have been revalued. Depreciation is provided to write tangible fixed assets down to a residual value over their estimated useful economic lives at the following annual rates:

Freehold land	– Nil
Freehold and long leasehold buildings	– 2% of cost or over the life of the lease if less than 50 years
Motor vehicles	– 25% of cost or net book value according to the type of vehicle concerned
Plant and equipment	– 7% to 25% of cost or net book value according to the circumstances of the assets concerned

(f) Associated undertakings
All companies where the Group has significant influence, normally evidenced by both Board representation and ownership of at least 20 per cent of the voting rights on a long-term basis, are treated as associated undertakings.

The Group's share of the results of associated undertakings is included in the consolidated profit and loss account and the Group's share of net assets is shown in the consolidated balance sheet.

(g) Investments
Unlisted investments are stated at cost less provisions for any impairment of value.

(h) Stocks
Stocks are stated at the lower of cost and net realisable value. For work in progress and finished goods, cost is taken as production cost which includes an appropriate proportion of overheads.

(i) Research and development
Expenditure on research and development is written off against profits in the period in which it is incurred, except for the development expenditure on new or substantially improved products which is capitalised only when future recoverability is reasonably assured. Provision is made for any impairment in value.

(j) Taxation
The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Credit is taken for advance corporation tax written off in previous years when it is recovered against corporation tax liabilities.

Deferred tax is provided only where a taxation liability is likely to arise in the foreseeable future. Provision is made at rates expected to be applicable when the liabilities are likely to crystallise.

(k) Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction unless sale proceeds are the subject of a forward sale for a predetermined sum in sterling. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date. Gains or losses on transactions are included in the profit and loss account to the extent that they are not matched by binding forward trading contracts.

Profit and loss accounts of foreign operations are translated into sterling at the average rate applicable to the respective accounting period.

Assets and liabilities of foreign operations are translated using the rate of exchange ruling at the balance sheet date. Gains or losses on translations of foreign operations and on foreign currency borrowings, to the extent they hedge the Group's investment in such operations, are included as a movement on reserves.

(l) Leases
Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

Assets acquired under hire purchase contracts and finance leases are capitalised and included in tangible fixed assets. The capital element of future lease obligations is recorded as a liability. Amounts payable are apportioned between the finance element, which is charged to the profit and loss account as interest on a reducing balance basis, and the capital element, which reduces the outstanding obligation for future instalments.

(m) Pension costs
The Group continues to operate both defined benefit and defined contribution pension plans.

For defined contribution schemes, costs are charged to the profit and loss account as incurred.

For defined benefit schemes, the cost of providing pensions and other employee post-retirement benefits is charged to the profit and loss account on a systematic and rational basis over the period during which benefit is derived from employees' service. The difference between the charges to the profit and loss account and the actual contributions paid is included as an asset or liability in the balance sheet.

(n) Turnover
Turnover represents the invoiced value of goods and services provided during the year net of trade discounts, value added and sales taxes. Sales returns are recognised as a reduction to turnover as they arise. Credit note reserves are provided at the year end to account for management estimates of customer returns.

(o) Derivative financial instruments
The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Group's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the Group's financial statements.

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by changing the basis of calculation e.g. from fixed to floating rate. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

2. Consolidated Profit and Loss, Exceptional Items and Prior Period Restatement

(a) Acquisitions
Full details of all acquisitions during the year are included in note 23. Contribution to turnover and operating profit of the Hibi antiseptic range during the year amounted to £11.1 million and £5.4 million respectively.

In addition, the Group made further acquisitions which are referred to in note 23. These have been fully integrated into the existing business and have therefore not been separately identified as acquired operations in accordance with FRS 3.

(b) Exceptional items
The exceptional items total £53.7million (pre tax) of which £24.4 million relates to integration and duplicated costs following the merger. A further £9.8 million relates to restructuring of UK and Malaysian manufacturing. £19.5 million relates to 'mezzanine' item disclosures in accordance with FRS 3. The mezzanine items relate to termination of glove and branded condom manufacturing in the USA of £5.8 million, disposal of the Scholl retail business in the UK and Eire of £4.7 million, disposal of the Scholl brand in Latin America of £4.2 million and the closure of the Latin America business of £4.8 million.

The exceptional items in the prior period as restated total £139.3 million (pre tax) of which £61.2 million relates to integration and duplicated costs following the merger and costs associated with the exit from the examination glove market. A further £78.1 million relates to 'mezzanine' item disclosures in accordance with FRS 3. The mezzanine items relate to costs associated with the merger of £14.1 million, termination of glove and branded condom manufacturing in the USA of £63.4 million (including £35.6 million in respect of goodwill write off and £11.7 million in respect of fixed asset write off) and £0.6 million in respect of other fixed asset disposals.

(c) Restatement of prior period accounts
During the year, the Board announced a review of the Group's practice of trade loading. This review gave rise to a separate investigation into the overstatement of results of prior periods. As a result of this investigation, the financial statements and the related notes for the 13 month period ended 31 March 2000 have been restated. The restatement relates to the recognition and the timing of certain sales, sales returns, credits to customers and stock write-offs.

Analysis of the Consolidated Profit and Loss Accounts and Balance Sheets are presented in note 33 showing the impact of the prior period adjustments for the 13 months ended 31 March 2000 and the year ended 28 February 1999. As a result of these prior period adjustments, turnover for the year ended 31 March 2001 increased by £10.1 million and profit before taxation increased by £0.4 million.

3. Segmental Analysis

(a) Analysis of turnover by principal class of business:

	12 months to 31 March 2001 £'m	13 months to 31 March 2000 *as restated* (note 2) £'m
Consumer healthcare	**359.6**	390.0
Medical	**211.2**	207.6
Household and industrial gloves	**49.3**	59.4
Other	**29.2**	42.9
	649.3	699.9

The classes of business are fully integrated into the Group, therefore the profit before tax and net assets have not been disclosed.

(b) Analysis of turnover by principal region of origin:

	Total sales		Inter-region		Third party	
	12 months to 31 March 2001 £'m	13 months to 31 March 2000 *as restated* (note 2) £'m	**12 months to 31 March 2001 £'m**	13 months to 31 March 2000 £'m	**12 months to 31 March 2001 £'m**	13 months to 31 March 2000 *as restated* (note 2) £'m
United Kingdom and Eire	**463.0**	493.1	**204.5**	204.1	**258.5**	289.0
Continental Europe	**238.4**	252.4	**31.1**	26.5	**207.3**	225.9
Americas	**131.5**	141.0	**9.5**	12.3	**122.0**	128.7
Asia Pacific and Rest of the World	**119.4**	97.3	**57.9**	41.0	**61.5**	56.3
	952.3	983.8	**303.0**	283.9	**649.3**	699.9

Continental Europe includes Austria, Belgium, the Czech Republic, France, Germany, Greece, Hungary, Italy, Luxembourg, the Netherlands, Poland, Portugal, Romania, Russia, Scandinavia, Slovakia, Spain, Switzerland, and Turkey.

(c) Analysis of turnover by geographical destination:

	12 months to 31 March 2001 £'m	13 months to 31 March 2000 *as restated* (note 2) £'m
United Kingdom and Eire	**215.0**	237.6
Continental Europe	**232.0**	260.0
Americas	**121.9**	129.8
Asia Pacific and Rest of the World	**80.4**	72.5
	649.3	699.9

(d) Group operating profit by principal region of origin:

	12 months to 31 March 2001 Total £'m	**12 months to 31 March 2001 Exceptional items £'m**	**12 months to 31 March 2001 Before exceptional items £'m**	13 months to 31 March 2000 Before exceptional items *as restated* (note 2) £'m	13 months to 31 March 2000 Exceptional items *as restated* (note 2) £'m	13 months to 31 March 2000 Total *as restated* (note 2) £'m
United Kingdom and Eire	**53.5**	**(17.7)**	**71.2**	85.4	(29.4)	56.0
Continental Europe	**17.5**	**(12.7)**	**30.2**	27.2	(14.4)	12.8
Americas	**(8.1)**	**(2.6)**	**(5.5)**	1.6	(12.9)	(11.3)
Asia Pacific and Rest of the World	**17.1**	**(1.2)**	**18.3**	16.3	(4.5)	11.8
Group operating profit	**80.0**	**(34.2)**	**114.2**	130.5	(61.2)	69.3

3. Segmental Analysis continued

(e) Net operating assets by principal region of origin was as follows:

	31 March 2001 £'m	31 March 2000 *as restated* (note 2) £'m
United Kingdom and Eire	**289.7**	237.4
Continental Europe	**90.5**	74.9
Americas	**55.1**	61.3
Asia Pacific and Rest of the World	**71.3**	37.9
Net operating assets	**506.6**	411.5

Reconciliation of net operating assets to total net assets:

	31 March 2001 £'m	31 March 2000 *as restated* (note 2) £'m
Net operating assets as above	**506.6**	411.5
Investments	**5.0**	3.5
Cash at bank and in hand	**57.4**	62.4
Taxation recoverable	**0.1**	4.0
Deferred expenditure	**–**	4.5
Assets held for disposal	**0.7**	1.5
Borrowings	**(438.3)**	(341.6)
Taxation on profits	**(25.7)**	(33.4)
Deferred consideration	**(5.2)**	(4.4)
Proposed dividends	**(15.9)**	(15.8)
Provision for liabilities and charges	**(29.5)**	(37.4)
Net assets	**55.2**	54.8

4. Group Operating Profit

Group operating profit is stated after charging:

	12 months to 31 March 2001 £'m	13 months to 31 March 2000 £'m
Depreciation of tangible fixed assets	**15.4**	18.3
Amortisation of goodwill and intangible assets	**4.9**	2.5
Research and development	**9.3**	9.8
Operating lease rentals		
– plant and machinery	**2.9**	2.9
– other	**3.6**	7.3
Auditors' remuneration		
– audit	**0.7**	0.7
– non audit	**1.5**	2.0

5. Staff Costs

Employee costs during the year amounted to:

	12 months to 31 March 2001 £'m	13 months to 31 March 2000 £'m
Wages and salaries	**105.5**	115.1
Social security costs	**12.2**	13.9
Other pension and health insurance costs (see note 32)	**6.8**	10.6
	124.5	139.6

The average monthly number of employees (including Executive Directors) was as follows:

	12 months to 31 March 2001	13 months to 31 March 2000
Manufacturing	**4,941**	4,455
Marketing and selling	**1,755**	1,962
Administration	**1,181**	1,074
	7,877	7,491

Directors' Remuneration

Full details of Directors' remuneration, shares and options are set out in the Remuneration Report on pages 32 to 35.

6. Finance Charges (net)

Investment income

	12 months to 31 March 2001 £'m	13 months to 31 March 2000 £'m
Income from short-term investments	**1.1**	1.3

Interest payable and similar charges

	12 months to 31 March 2001 £'m	13 months to 31 March 2000 £'m
Bank loans and overdrafts	**6.0**	10.4
Loan notes	**19.7**	10.1
	25.7	20.5
Share of associated undertakings interest payable	**0.1**	–
	25.8	20.5

Finance charges (net):

	12 months to 31 March 2001 £'m	13 months to 31 March 2000 £'m
Interest payable and similar charges	**25.8**	20.5
Less: Investment income	**(1.1)**	(1.3)
	24.7	19.2
Group	**24.6**	19.2
Associated undertakings	**0.1**	–
	24.7	19.2

Notes to the Financial Statements continued

7. Tax on Profit/(Loss) on Ordinary Activities

The tax charge is based on the profit/(loss) for the year and comprises:

	12 months to 31 March 2001 Total £'m	**12 months to 31 March 2001 Exceptional items £'m**	**12 months to 31 March 2001 Before exceptional items £'m**	13 months to 31 March 2000 Before exceptional items *as restated* (note 2) £'m	13 months to 31 March 2000 Exceptional items *as restated* (note 2) £'m	13 months to 31 March 2000 Total *as restated* (note 2) £'m
UK Corporation Tax	**17.7**	**(2.7)**	**20.4**	25.2	(8.4)	16.8
Release of prior year over provision	**(8.5)**	**–**	**(8.5)**	–	–	–
Advance Corporation Tax recovered	**(5.7)**	**(4.5)**	**(1.2)**	(5.2)	5.2	–
Deferred taxation	**(0.3)**	**–**	**(0.3)**	–	–	–
Overseas taxation	**8.6**	**(3.5)**	**12.1**	7.8	(1.2)	6.6
Share of associated undertakings' tax	**0.3**	**–**	**0.3**	–	–	–
	12.1	**(10.7)**	**22.8**	27.8	(4.4)	23.4

8. Dividends

	12 months to 31 March 2001 £'m	13 months to 31 March 2000 £'m
Attributable to equity share capital		
– Interim paid of 3.9p (2000: 3.6p) per ordinary share	**7.4**	6.8
– Final proposed of 8.4p (2000: 8.4p) per ordinary share	**15.9**	15.8
Total	**23.3**	22.6

Dividends on 94,906 shares owned by the Scholl Employee Trust and on 59,055 shares owned by the Seton Group ESOP have been waived.

9. Earnings/(Loss) Per Share

Earnings/(loss) per share has been calculated by dividing the profit/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

An adjusted earnings/(loss) per share figure has been shown in order to achieve comparability period on period. The calculation uses the basic weighted average number of shares together with basic earnings/(loss) adjusted to exclude the impact of amortisation of goodwill and intangibles.

The profit/(loss) attributable to ordinary shareholders is calculated as follows:

	12 months to 31 March 2001 Total £'m	**12 months to 31 March 2001 Before exceptional items £'m**	13 months to 31 March 2000 Before exceptional items *as restated* (note 2) £'m	13 months to 31 March 2000 Total *as restated* (note 2) £'m
Profit/(loss) for the year:				
For basic earnings/(loss) per share	**25.5**	**68.5**	83.3	(51.6)
Amortisation of goodwill and intangibles	**4.9**	**4.9**	2.5	2.5
For adjusted earnings/(loss) per share	**30.4**	**73.4**	85.8	(49.1)

The calculation of diluted earnings/(loss) per share uses basic earnings/(loss), as defined above, and the basic weighted average number of ordinary shares in issue during the year adjusted as follows:

	12 months to 31 March 2001 Total	12 months to 31 March 2001 Before exceptional items	**13 months to 31 March 2000 Before exceptional items**	13 months to 31 March 2000 Total
Weighted average number of shares (millions):				
For basic earnings/(loss) per share	**188.7**	188.7	**188.1**	188.1
Dilutive effect of share options	**0.3**	0.3	**0.6**	–
For diluted earnings/(loss) per share	**189.0**	189.0	**188.7**	188.1

10. Goodwill and Intangible Assets

	Note	Goodwill £'m	Scholl Brand £'m	Other £'m	Group Total £'m
Cost					
At 1 April 2000		43.3	70.8	19.2	**133.3**
Acquisitions	23	44.1	–	6.6	**50.7**
Additions		–	–	11.0	**11.0**
Disposals		–	(10.8)	–	**(10.8)**
At 31 March 2001		**87.4**	**60.0**	**36.8**	**184.2**
Amortisation					
At 1 April 2000		2.0	–	12.4	**14.4**
Charge for the year		3.2	–	1.7	**4.9**
At 31 March 2001		**5.2**	**–**	**14.1**	**19.3**
Net book value					
At 31 March 2001		**82.2**	**60.0**	**22.7**	**164.9**
At 31 March 2000		41.3	70.8	6.8	118.9

The Scholl brand has been subject to an impairment review in accordance with FRS 11. There has been no impairment in the book value during the year.

Other intangible assets represent trademarks, purchased know-how, product licenses and capitalised development costs. Additions during the year include £6.6 million in respect of a technology sharing agreement with Schering Plough and £4.1 million in respect of the Diana trademark and patent rights in Austria.

11. Tangible Fixed Assets

	Note	Land & buildings £'m	Plant, equipment and motor vehicles £'m	Group Total £'m
Cost				
At 1 April 2000		53.6	183.1	**236.7**
Additions		14.3	33.4	**47.7**
Acquisitions	23	1.4	1.5	**2.9**
Disposals		(4.2)	(20.7)	**(24.9)**
Exchange adjustments		1.8	6.4	**8.2**
At 31 March 2001		**66.9**	**203.7**	**270.6**
Depreciation				
At 1 April 2000		10.0	101.0	**111.0**
Charge for the year		1.7	13.7	**15.4**
Disposals		(0.6)	(14.5)	**(15.1)**
Exchange adjustments		0.5	4.3	**4.8**
At 31 March 2001		**11.6**	**104.5**	**116.1**
Net book value				
At 31 March 2001		**55.3**	**99.2**	**154.5**
At 31 March 2000		43.6	82.1	125.7

	Land & buildings £'m	Plant, equipment and motor vehicles £'m	Company Total £'m
Cost			
At 1 April 2000	2.5	8.8	**11.3**
Additions	0.2	3.8	**4.0**
Disposals	–	(0.2)	**(0.2)**
At 31 March 2001	**2.7**	**12.4**	**15.1**
Depreciation			
At 1 April 2000	0.1	1.5	**1.6**
Charge for the year	–	1.6	**1.6**
At 31 March 2001	**0.1**	**3.1**	**3.2**
Net book value			
At 31 March 2001	**2.6**	**9.3**	**11.9**
At 31 March 2000	2.4	7.3	9.7

11. Tangible Fixed Assets continued

The net book values of land and buildings are analysed as:

	Group 31 March 2001 £'m	Group 31 March 2000 £'m	Company 31 March 2001 £'m	Company 31 March 2000 £'m
Freehold property	**39.0**	34.9	**2.6**	2.4
Long leasehold property	**10.7**	4.1	**–**	–
Short leasehold property	**5.6**	4.6	**–**	–
	55.3	43.6	**2.6**	2.4

The net book value of plant, equipment and motor vehicles of the Group and Company includes £1.2 million (2000: £1.5 million) in respect of assets held under finance leases. Depreciation charged during the year in respect of those assets amounted to £0.3 million (2000: £0.1 million).

Included within land and buildings is land with a cost of £2.1 million (2000: £2.1 million) which has not been depreciated.

Assets held under the course of construction comprise £7.5 million within land and buildings (2000: £2.7 million) and £14.2 million within plant and machinery (2000: £6.5 million).

12. Fixed Asset Investments

The Group's investments are as follows:

	Share of associated undertakings £'m	Unlisted investments £'m	Group Total £'m
Cost			
At 1 April 2000	2.1	0.4	**2.5**
Exchange adjustments	0.1	–	**0.1**
At 31 March 2001	**2.2**	**0.4**	**2.6**
Share of retained profit			
At 1 April 2000	1.4	–	**1.4**
Share of profit for the year	1.4	–	**1.4**
At 31 March 2001	**2.8**	**–**	**2.8**
Provisions at 1 April 2000 and 31 March 2001	–	(0.4)	**(0.4)**
Net book value			
At 31 March 2001	**5.0**	**–**	**5.0**
At 31 March 2000	3.5	–	3.5

In the opinion of the Directors the market value of the investments is not materially different from the amounts stated above.

Details of the principal Group operating undertakings are set out in note 29.

Investments in subsidiary undertakings

The Company's investments are as follows:

	Cost of shares in subsidiary undertakings £'m
Cost and net book value at 1 April 2000 and 31 March 2001	**350.6**

Notes to the Financial Statements continued

13. Investments in Own Shares

	Scholl Employee Trust £'m	Seton QUEST £'m	Seton Group ESOP £'m	Group Total £'m
Cost				
At 1 April 2000	0.3	–	–	**0.3**
Additions	–	0.2	0.3	**0.5**
Transfers to participants	–	(0.2)	–	**(0.2)**
At 31 March 2001	**0.3**	**–**	**0.3**	**0.6**

	Seton QUEST £'m	Seton Group ESOP £'m	Company Total £'m
Cost			
Additions	0.2	0.3	**0.5**
Transfers to participants	(0.2)	–	**(0.2)**
At 31 March 2001	**–**	**0.3**	**0.3**

The Scholl Employee Trust (SET) purchases the Company's shares in the open market. These are held for employees participating in the Scholl 1986 Share Option Scheme. At 31 March 2001 and 31 March 2000 the SET owned 94,906 ordinary shares, all of which were under option to members of the Scheme and the Plan.

The Seton Healthcare Group Qualifying Employee Share Ownership Trust (QUEST) purchases the Company's shares in the open market. These are held for employees participating in the Company's 1996 Executive Share Option Scheme and Company Share Option Scheme 2000. During the year 29,087 shares were purchased, at a cost of 535.0p each. These were all transferred to participants during the year.

The Seton Healthcare Group Employee Share Ownership Plan (ESOP) purchases the Company's shares in the open market. These are held for employees participating in the Company's 1996 Executive Share Option Scheme and Company Share Option Scheme 2000. During the year 59,055 shares were purchased, at a cost of 535.0p each.

In accordance with the requirements of UITF 13 "Accounting for ESOP Trusts", the Group has recognised the assets of each of the trusts as fixed assets of the Group. The shares held in the SET are valued at 314.7p and those in the ESOP at 535.0p, the original cost.

In addition to the shares recognised by the Group in accordance with UITF 13, shares are also held by the SSL International Employee Benefit Trust (EBT). These shares are held by the EBT for those employees participating in the Company's long-term incentive plan and have been purchased by the EBT in accordance with the conditions as set out in the Remuneration Report on page 32. These shares have not been recognised as investments in own shares as the ownership of these shares vests with the Directors' and senior management to whom they have been awarded. During the year 61,475 shares have been purchased at a cost of 717.5p per share. 3,484 of these shares were transferred to participants of the scheme during the year.

The share price as at 31 March 2001 was 480.0p

14. Stocks

	Group		Company	
	31 March 2001 £'m	31 March 2000 *as restated* (note 2) £'m	**31 March 2001 £'m**	31 March 2000 £'m
Raw materials and consumables	**13.9**	13.9	**–**	–
Work in progress	**7.6**	10.6	**–**	–
Finished goods and goods for resale	**99.4**	76.4	**–**	–
	120.9	100.9	**–**	–

15. Debtors: amounts falling due within one year

	Group		Company	
	31 March 2001 £'m	31 March 2000 *as restated* (note 2) £'m	**31 March 2001 £'m**	31 March 2000 £'m
Trade debtors	**227.5**	185.4	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**495.5**	323.5
Amounts owed by associated undertakings	**–**	0.2	**–**	–
Taxation recoverable – UK	**–**	1.9	**–**	–
– overseas	**0.1**	1.9	**–**	–
Other debtors	**14.1**	10.2	**–**	–
Prepayments and accrued income	**6.6**	8.1	**1.8**	5.9
Deferred expenditure	**–**	4.5	**–**	–
Assets held for disposal	**0.7**	1.5	**–**	–
	249.0	213.7	**497.3**	329.4

16. Debtors: amounts falling due after more than one year

	Group		Company	
	31 March 2001 £'m	31 March 2000 £'m	**31 March 2001 £'m**	31 March 2000 £'m
Taxation recoverable – overseas	**–**	0.2	**–**	–
Other debtors	**1.2**	0.6	**–**	–
Prepayments and accrued income	–	2.3	**–**	–
	1.2	3.1	**–**	–

17. Creditors: amounts falling due within one year

	Group		Company	
	31 March 2001 £'m	31 March 2000 *as restated* (note 2) £'m	**31 March 2001 £'m**	31 March 2000 £'m
Obligations under finance leases	**0.5**	0.5	**0.5**	0.5
Bank loans and overdrafts	**201.5**	101.1	**158.3**	57.7
Loan notes	**–**	1.4	**–**	–
Trade creditors	**73.2**	54.6	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**37.3**	2.9
Amounts owed to associated undertakings	**2.0**	2.3	**–**	–
Taxation on profits – UK	**21.7**	24.2	**1.2**	1.3
– overseas	**4.0**	9.2	**–**	–
Other taxation and social security	**11.0**	11.5	**–**	–
Other creditors and accruals	**92.5**	69.2	**10.2**	6.9
Deferred consideration	**5.2**	2.3	**–**	–
Proposed dividends	**15.9**	15.8	**15.9**	15.8
	427.5	292.1	**223.4**	85.1

18. Creditors: amounts falling due after more than one year

	Group		Company	
	31 March 2001 £'m	31 March 2000 £'m	**31 March 2001 £'m**	31 March 2000 £'m
Obligations under finance leases	**0.2**	0.6	**0.2**	0.6
Bank loans and overdrafts	**14.3**	5.6	**–**	–
Loan notes	**221.8**	232.4	**221.8**	224.1
Other creditors and accruals	**5.0**	3.5	**–**	–
Deferred consideration	**–**	2.1	**–**	–
	241.3	244.2	**222.0**	224.7

Bank loans, overdrafts and loan notes are repayable as follows:

	Group		Company	
	31 March 2001 £'m	31 March 2000 £'m	**31 March 2001 £'m**	31 March 2000 £'m
Within one year, or on demand	**201.5**	102.5	**158.3**	57.7
One to two years	**4.8**	3.3	**–**	–
Two to five years	**28.0**	19.4	**18.5**	11.6
After five years	**203.3**	215.3	**203.3**	212.5
	437.6	340.5	**380.1**	281.8

Loan notes repayable by instalments amount to £58.4 million (2000: £61.7 million), of which £35.9 million falls due after more than five years (2000: £42.8 million).

The loan notes comprise US$ 7.67% Guaranteed Loan Notes 2009 totalling $83.0 million which were issued in November 1999 and are repayable in thirteen equal instalments commencing 2003; US$ 7.84% Guaranteed Loan Notes 2009 totalling $262.0 million which were issued in November 1999 and will be repaid in November 2009 and Sterling 7.52% Guaranteed Loan Notes 2014 totalling £15.0 million which were issued in November 1999 and will be repaid in November 2014.

US$ 7.16% Guaranteed Loan Notes 2007, totalling $15.5 million were repaid during the year.

Interest on loan notes repayable by instalments amounted to £4.3 million (2000: £4.7 million).

18. Creditors: amounts falling due after more than one year continued

Obligations under finance leases are repayable as follows:

	Group		Company	
	31 March 2001 £'m	31 March 2000 £'m	**31 March 2001 £'m**	31 March 2000 £'m
Within one year, or on demand	**0.5**	0.5	**0.5**	0.5
One to two years	**0.2**	0.5	**0.2**	0.5
Two to five years	**–**	0.1	**–**	0.1
	0.7	1.1	**0.7**	1.1

Total borrowings including finance leases are repayable as follows:

	Group		Company	
	31 March 2001 £'m	31 March 2000 £'m	**31 March 2001 £'m**	31 March 2000 £'m
Within one year, or on demand	**202.0**	103.0	**158.8**	58.2
One to two years	**5.0**	3.8	**0.2**	0.5
Two to five years	**28.0**	19.5	**18.5**	11.7
After five years	**203.3**	215.3	**203.3**	212.5
	438.3	341.6	**380.8**	282.9
Borrowings secured on assets of certain subsidiary undertakings	**1.7**	3.2	**–**	–
Unsecured borrowings	**436.6**	338.4	**380.8**	282.9
	438.3	341.6	**380.8**	282.9

19. Provisions for Liabilities and Charges

	Note	Overseas pensions and similar obligations Note 32 £'m	Deferred taxation £'m	Manufacturing restructuring £'m	Merger integration £'m	Other £'m	**Total £'m**
							Group
At 1 April 2000 as previously stated		3.5	2.1	7.7	20.2	3.5	**37.0**
Prior period restatement	33	–	–	–	0.4	–	**0.4**
At 1 April 2000 as restated		3.5	2.1	7.7	20.6	3.5	**37.4**
Charged/(credited) to the profit and loss account		0.6	(0.3)	15.6	39.7	0.7	**56.3**
Released unused		(0.1)	–	–	(1.4)	(0.9)	**(2.4)**
Utilised in the year		(0.7)	–	(11.9)	(50.6)	(0.7)	**(63.9)**
Exchange adjustments		0.1	–	0.8	0.8	0.4	**2.1**
At 31 March 2001		**3.4**	**1.8**	**12.2**	**9.1**	**3.0**	**29.5**

	Deferred taxation £'m	Manufacturing restructuring £'m	Merger integration £'m	Other £'m	**Total £'m**
					Company
At 1 April 2000	0.4	–	–	1.0	**1.4**
Charged to the profit and loss account	–	0.7	5.1	–	**5.8**
Utilised in the year	–	(0.3)	(3.7)	(1.0)	**(5.0)**
At 31 March 2001	**0.4**	**0.4**	**1.4**	**–**	**2.2**

Manufacturing restructuring

During the year, the Group disposed of Eufaula, the non-branded condom manufacturing facility in the USA and progressed with the closure of the examination glove and branded condom facility in Alabama. In addition further global manufacturing restructuring changes were announced and commenced. These include the transfer of manufacturing operations to a new pharmaceutical plant at Peterlee and the subsequent closure of factories at Blackburn and Bootle and the transfer of surgical glove packing to a new Kuala Ketil plant in Malaysia. Outstanding provisions relate to redundancies, site exit costs, stock and fixed asset scrapping.

Merger integration

Following the merger of Seton Scholl and LIG in June 1999, a global integration plan was initiated. Costs provided at 31 March 2001 include identified redundancy payments, property costs and other integration related costs. The largest amounts are expected to be settled within 1 year of the balance sheet date. In addition the decision was taken to dispose of the Scholl retail shops in UK and Eire and the Scholl brand and businesses in Latin America. Provisions remaining at 31 March 2001 relating to these disposals include redundancy costs and outstanding tax and social security claims.

Other

Other provisions relate to a number of pre-merger Seton Scholl provisions and LIG provisions. Costs which remain provided include property rental and maintenance obligations following previous restructuring, environmental issues as discussed in note 28 and obligations concerning distribution agreements. A number of these matters may be the subject of negotiation over a number of years.

19. Provisions for Liabilities and Charges continued

Deferred taxation
The deferred taxation balance relates to:

	Group		Company	
	31 March 2001 £'m	31 March 2000 £'m	**31 March 2001 £'m**	31 March 2000 £'m
Capital allowances in excess of related depreciation	**1.9**	2.1	**0.2**	0.2
Other timing differences	**(0.1)**	–	**0.2**	0.2
	1.8	2.1	**0.4**	0.4
Potential amounts not provided are:				
Capital allowances in excess of related depreciation	**1.4**	0.6	**–**	–
Other timing differences	**–**	(0.1)	**–**	–
	1.4	0.5	**–**	–

In the opinion of the Directors, future capital expenditure by the Company and the Group will be such that no liability for deferred taxation will arise in the foreseeable future other than that provided above. Deferred taxation is not generally provided in respect of liabilities which might arise on the distribution of unappropriated profits of overseas subsidiary undertakings, except where distributions of such profits are planned.

20. Called up Share Capital

	Group and Company		Group and Company	
	31 March 2001 Shares Number	**31 March 2001 £'m**	31 March 2000 Shares Number	31 March 2000 £'m
Authorised				
Ordinary shares of 10p each	**250,000,000**	**25.0**	250,000,000	25.0
Allotted and fully paid				
Ordinary shares of 10p each	**189,014,818**	**18.9**	188,309,822	18.8

During the year the Company allotted 643,521 shares with a nominal value of £64,352 under share option schemes for an aggregate cash consideration of £3,115,923. A further 61,475 shares with a nominal value of £6,148 were issued and purchased for cash consideration of £441,083 by the SSL International employee benefit trust (EBT) (see note 13).

Options outstanding at 31 March 2001, totalled 3,910,398 ordinary shares granted under share option schemes at prices between 269.2p and 1,076.5p per share, exercisable between 1 April 2001 and 14 June 2010.

21. Share Premium Account

	Group and Company £'m
At 1 April 2000	35.7
Share options exercised and shares purchased by the EBT	3.5
At 31 March 2001	**39.2**

22. Reserves

				Group
	Note	Profit and loss account £'m	Merger reserve £'m	**Total £'m**
At 1 April 2000 as previously stated		(121.9)	136.8	**14.9**
Prior period restatement	33	(14.6)	–	**(14.6)**
At 1 April 2000 as restated		(136.5)	136.8	**0.3**
Exchange adjustments		(5.4)	–	**(5.4)**
Retained profit for the year		2.2	–	**2.2**
At 31 March 2001		**(139.7)**	**136.8**	**(2.9)**

					Company
	Profit and loss account £'m	Other reserve £'m	Merger reserve £'m	Investment revaluation reserve £'m	**Total £'m**
At 1 April 2000	(29.9)	50.7	33.1	273.5	**327.4**
Retained profit for the year	30.2	–	–	–	**30.2**
At 31 March 2001	**0.3**	**50.7**	**33.1**	**273.5**	**357.6**

Of the reserves of the Company £51.0 million (2000: £20.8 million) is regarded as distributable.

23. Acquisition of Subsidiary Undertakings and Businesses

The principal acquisitions made in the year were as follows:

On 13 November 2000 the Group purchased the Hibi antiseptic product range from AstraZeneca plc for £46.4 million including expenses.

On 4 April 2000 the Group acquired Silipos UK Ltd for consideration of £1.2 million including expenses.

During the year, the acquisition of certain assets of the medical glove manufacturer, AMPri Rubberware Industries in Malaysia was completed. An initial payment of £4.5 million was paid on 15 March 2000. Further consideration of £0.6 million including expenses was paid during the current year.

On 10 November 2000 the Group acquired the business and assets of Boston Hospital Products (UK) Ltd for consideration of £0.9 million including expenses.

	Hibi antiseptic range £'m	Silipos UK £'m	AMPri Rubberware Industries £'m	Boston Hospital Products £'m	**Total £'m**
Fixed assets					
Intangible	6.4	–	–	0.2	**6.6**
Tangible	–	–	2.5	0.4	**2.9**
Current assets					
Stocks	–	0.1	0.1	–	**0.2**
Debtors	–	0.2	0.2	–	**0.4**
Total assets	6.4	0.3	2.8	0.6	**10.1**
Creditors					
Other creditors	–	(0.1)	(0.5)	–	**(0.6)**
Net assets acquired	6.4	0.2	2.3	0.6	**9.5**
Consideration					
Cash (including expenses)	46.4	1.2	5.1	0.9	**53.6**
Goodwill	40.0	1.0	2.8	0.3	**44.1**

There were no fair value adjustments required to the net assets acquired.

24. Minority Interests

The minority interests comprise equity shares in SSL-TTK Limited (formerly Scholl Piramal (India) Private Limited) and PT Scholindo Nusantara. The minority share of profit after tax for the year was £nil (2000: £nil).

25. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of Group operating profit to net cash inflow from operating activities

	12 months to 31 March 2001 Total £'m	**12 months to 31 March 2001 Cash effect of exceptional items £'m**	**12 months to 31 March 2001 Before exceptional items £'m**	13 months to 31 March 2000 Before exceptional items *as restated* (note 2) £'m	13 months to 31 March 2000 Cash effect of exceptional items *as restated* (note 2) £'m	13 months to 31 March 2000 Total *as restated* (note 2) £'m
Group operating profit	**80.0**	**(34.2)**	**114.2**	130.5	(61.2)	69.3
Exceptional items	**(19.5)**	**(19.5)**	**–**	–	(78.1)	(78.1)
Depreciation and amortisation	**20.3**	**–**	**20.3**	20.8	–	20.8
Loss/(profit) on sales of tangible fixed assets	**7.5**	**5.8**	**1.7**	(0.4)	12.3	11.9
Loss on disposal of subsidiary undertakings, product rights, businesses and brands	**4.2**	**4.2**	**–**	–	–	–
Exchange differences	**(1.4)**	**–**	**(1.4)**	0.6	–	0.6
(Increase)/decrease in stocks	**(15.7)**	**7.2**	**(22.9)**	9.9	10.0	19.9
(Increase)/decrease in debtors	**(40.0)**	**0.6**	**(40.6)**	(49.5)	0.1	(49.4)
Increase/(decrease) in creditors	**35.5**	**0.2**	**35.3**	(0.7)	1.9	1.2
Increase/(decrease) in provisions	**(10.0)**	**(9.7)**	**(0.3)**	(0.7)	15.7	15.0
Transfer to reserves	**–**	**–**	**–**	–	35.6	35.6
Net cash inflow from operating activities after exceptional items	**60.9**	**(45.4)**	**106.3**	110.5	(63.7)	46.8

The businesses and brands acquired in the year did not have a material effect on the cash inflow from operating activities for the year.

25. Notes to the Consolidated Cash Flow Statement continued

(b) Acquisition of subsidiary undertakings and businesses

	12 months to 31 March 2001 £'m	13 months to 31 March 2000 £'m
Net assets acquired		
Intangible fixed assets	**6.6**	–
Tangible fixed assets	**2.9**	0.8
Stocks	**0.2**	0.8
Debtors	**0.4**	1.2
Net cash	**–**	0.8
Creditors and provisions	**(0.6)**	(2.1)
Minority interests	**–**	0.8
	9.5	2.3
Goodwill	**44.1**	27.1
Total consideration	**53.6**	29.4
Satisfied by:		
Cash to acquire subsidiary undertakings	**1.2**	22.8
Cash to acquire businesses	**52.4**	3.0
Deferred consideration	**–**	3.6
Cash paid in prior period	**(4.5)**	–
Total consideration paid in current year	**49.1**	29.4

(c) Sale of product rights, businesses and brands

	12 months to 31 March 2001 £'m	13 months to 31 March 2000 £'m
Net assets sold		
Intangible fixed assets	**10.8**	–
	10.8	–
Loss on disposal	**(4.2)**	–
Sale proceeds	**6.6**	–
Satisfied by:		
Cash	**6.6**	–

(d) Analysis of net debt

	At 1 April 2000 £'m	Cash flow £'m	Other non-cash changes £'m	Exchange movement £'m	**At 31 March 2001 £'m**
Cash in hand and at bank	45.3	5.4	–	0.6	**51.3**
Overdrafts	(29.6)	1.7	–	(1.8)	**(29.7)**
	15.7	7.1	–	(1.2)	**21.6**
Debt due within one year	(72.9)	(92.3)	–	(6.6)	**(171.8)**
Debt due after one year	(238.0)	–	–	1.9	**(236.1)**
Finance leases	(1.1)	0.5	(0.1)	–	**(0.7)**
Liquid resources: cash deposits	17.1	(11.1)	–	0.1	**6.1**
Net debt	(279.2)	(95.8)	(0.1)	(5.8)	**(380.9)**

(e) Reconciliation of net cash inflow to movement in net debt

	12 months to 31 March 2001 £'m	13 months to 31 March 2000 £'m
Increase in cash in the year	**7.1**	17.2
Cash inflow from increase in debt	**(92.3)**	(87.7)
Cash outflow from payment of finance leases	**0.5**	0.7
Cash (inflow)/outflow from changes in liquid resources	**(11.1)**	7.4
Changes in net debt resulting from cash flows	**(95.8)**	(62.4)
New finance leases	**(0.1)**	(1.6)
Exchange differences	**(5.8)**	(0.9)
Movement in net debt in the year	**(101.7)**	(64.9)
Net debt at 1 April 2000	**(279.2)**	(214.3)
Net debt at 31 March 2001	**(380.9)**	(279.2)

26. Capital Commitments

	Group		Company	
	31 March 2001 £'m	31 March 2000 £'m	**31 March 2001 £'m**	31 March 2000 £'m
Contracted for but not provided	**21.4**	3.0	**–**	–

27. Leasing Commitments

Commitments in respect of non-cancellable operating lease rentals due within one year of the balance sheet date, analysed to the expiry date of the commitment, are:

	Land & buildings		Plant, equipment and motor vehicles	
	31 March 2001 £'m	31 March 2000 £'m	**31 March 2001 £'m**	31 March 2000 £'m
Group				
Within one year	**1.2**	0.8	**0.7**	0.7
Two to five years	**3.4**	1.7	**0.8**	2.4
After five years	**2.5**	4.5	**0.1**	–
	7.1	7.0	**1.6**	3.1

	Plant, equipment and motor vehicles	
	31 March 2001 £'m	31 March 2000 £'m
Company		
Within one year	–	0.1
Two to five years	–	0.1
	–	0.2

28. Contingent Liabilities

Provision has been made in the Group financial statements for environmental clean-up costs in the USA based on the Directors' best estimates of such costs according to information currently available. It is not possible to estimate with certainty the extent of any further liability that may arise.

Litigation

The Group, along with most other suppliers of medical gloves, is involved in a number of lawsuits in the USA alleging the development of sensitivities to natural rubber latex. The Directors have confidence in the high-quality gloves produced by the Group and believe it has defences available.

The Group believes that a substantial portion of any defence costs and potential liability will be covered by insurance. Some insurers have, however, reserved their rights (i.e. neither admitted nor denied coverage), and the Company is currently asserting its allocation of lawsuits to policy years in order that insurers can remove such reservation. Plaintiffs have also alleged successor liability in respect of claims against Aladan Corporation for product manufactured prior to the acquisition of a substantial portion of its assets by the Group in May 1996. The Group purchased insurance coverage for a three-year period to cover such risks, which expired on 10 May 1999.

At the annual renewal of LIG's product liability insurance cover in 1999, the insurance market had withdrawn cover for first injury/first exposure latex allergy claims occurring after May 1999. However, the Group has subsequently negotiated an option to take insurance which will specifically cover claims in the USA alleging sensitivities and reactions caused by wearing latex-glove products manufactured by the Group. The Directors remain confident of product quality, but now have access to what they consider to be appropriate levels of insurance cover, should this be required.

A provision of £3.8 million has been made for the amount of the potential self-insured element of existing and continuing claims. The Directors believe the provision is adequate. However, depending on the outcome of the uncertainties described above, the Group may incur costs in excess of the amount provided.

The Group is facing an action brought by Allegiance Healthcare Corporation in the USA alleging false advertising and unfair business practices in connection with the sale of Regent medical gloves. The Group is aggressively defending its position and has asserted appropriate counter-claims. A claim for reimbursement of legal defence costs has been submitted to the Company's insurers and in the meantime a receivable of £1.7 million has been recorded.

The Group is also a defendant in a number of other lawsuits incidental to its operations which, in the aggregate, are not expected to have a material adverse financial affect on the Group.

29. Principal Group Operating Undertakings

Trading	Country of registration, incorporation and operation
SSL Australia Pty. Limited	Australia
SSL Healthcare Oesterreich GmbH	Austria
NV SSL Healthcare Belgium S.A.	Belgium
SSL do Brasil Ltda	Brazil
SSL Canada Inc	Canada
SSL Czeska Republika s.r.o	Czech Republic
SSL Danmark A/S	Denmark
SSL Products Limited	England
London International Group Limited* (formerly plc)	England
LRC Products Limited	England
Scholl Limited	England
Scholl Consumer Products Limited	England
Tubifoam Limited	England
SSL Healthcare France SA	France
SSL Healthcare Deutschland GmbH & Co. KG	Germany
London International GmbH	Germany
Seton Scholl Hellas SA	Greece
Simco Limited	Guernsey
SSL Healthcare (Hong Kong) Ltd	Hong Kong
SSL Magyarorszag Kft	Hungary
SSL-TTK Limited	India
P T Scholindo Nusantara	Indonesia
SSL Healthcare Ireland Limited	Ireland
Seton Scholl Italia SpA	Italy
Hatu SpA	Italy
SSL Healthcare Italia SpA	Italy
SSL Healthcare Japan Limited	Japan
SSL Healthcare (Malaysia) Sdn Bhd	Malaysia
LRC Hospital Products Sdn. Bhd	Malaysia
LRC Malaysia Sdn Bhd	Malaysia
Scholl Mexicana SA de CV	Mexico
Schmid Laboratories de Mexico, Inc SA de CV	Mexico
SSL Healthcare Nederland BV	Netherlands
SSL New Zealand Limited	New Zealand
SSL Healthcare (Norge) A/S	Norway
London International Norway A/S	Norway
SSL Healthcare (Polska) Sp zoo	Poland
Franco Manufactura de Luvas, LDA	Portugal
LRC Laboratorios, LDA	Portugal
SSL Romania SRL	Romania
SSL Healthcare Singapore Pte Limited	Singapore
SSL Slovensko spol sro	Slovakia
SSL Healthcare Manufacturing, S.A.	Spain
SSL Healthcare Brands S.A.	Spain
SSL Sverige AB	Sweden
SSL Healthcare Suisse SA	Switzerland

Trading	Country of registration, incorporation and operation
SSL Manufacturing (Thailand) Limited	Thailand
SSL Healthcare Thailand Limited	Thailand
LRC Products Ticaret ve Pazarlama Limited Sirketi	Turkey
SSL Americas, Inc	USA
SSL U.S. Manufacturing, LLC	USA
Silipos, Inc	USA

Non-trading	Country of registration, incorporation and operation
LIG China BV	People's Republic of China
Seton Scholl Overseas Investments Limited	England
Seton Scholl UK Limited	England
Seton Investments Limited*	England
Scholl (Investments) Limited	England
Scholl (UK) Limited	England
SSL Healthcare GmbH	Germany
Seton Scholl Ireland Holdings Limited	Ireland
Seton Scholl International Ireland	Ireland
New Bridge Holdings BV	Netherlands
Scholl European Holdings BV	Netherlands
SSL Holdings, Inc	USA
LRC North America, Inc	USA

The Group holds 100 per cent of the equity capital of the above companies with the exception of PT Scholindo Nusantara in which the Group holds 70 per cent and SSL-TTK Limited in which the Group holds 51 per cent and TTK-LIG Limited holds the remaining 49 per cent.

Associated undertakings	Country of registration, incorporation and operation
New Bridge Hong Kong Limited	Hong Kong
Quingdao London International Latex Company Limited	People's Republic of China
TTK-LIG Limited	India

The Group holds 50 per cent of the equity capital of both New Bridge Hong Kong Limited and Quingdao London International Latex Company Limited and 49.61 per cent of TTK-LIG Limited.

* shares are held directly by SSL International plc.

30. Related Party Transactions

Associated companies

The Group holds a 49.61 per cent interest (2000: 44.5 per cent) in the 1,414,300 (2000: 1,575,600) Rs 10/- issued, subscribed, called and paid up equity shares of TTK-LIG Limited. Specific transactions with TTK-LIG Limited which are considered material are as follows:

– technology transfer agreements;
– marketing and managerial assistance for development of new and existing markets for TTK-LIG Limited;
– during the year ended 31 March 2001, the Group supplied raw materials with a value of £0.1 million (2000: £0.6 million) to TTK-LIG Limited, which were supplied at cost;
– during the year ended 31 March 2001, the Group purchased £10.8 million (2000: £6.6 million) of finished goods for resale from TTK-LIG Limited.
– during the year TTK-LIG Limited paid Rs 66.6 million to acquire 1,960,000 shares in SSL-TTK. As a result of this investment TTK-LIG Limited now own 49 per cent of the equity capital of SSL-TTK Limited, a company in which the Group continue to hold a further 51 per cent of the equity capital.

31. Derivatives and other Financial Instruments

The Group's policies as regards derivatives and financial instruments are set out in the Financial Review on pages 24 to 25. The Group does not trade in financial instruments. Short-term debtors and creditors have been omitted from all disclosures other than the currency exposures.

(a) Interest rate risk profile of financial assets and liabilities

The Group held the following financial assets:

	31 March 2001 £'m	31 March 2000 £'m
Cash deposits and liquid resources		
Sterling	**26.2**	31.5
US Dollar	**3.6**	3.8
Euro	**15.7**	16.9
Other	**11.9**	10.2
Total	**57.4**	62.4

The cash deposits and liquid resources comprise deposits placed at call and terms not exceeding three months.

The interest rate profile of the financial liabilities of the Group was:

				Fixed rate financial liabilities	
	Total £'m	Floating rate financial liabilities £'m	Fixed rate financial liabilities £'m	Weighted average interest rate %	Weighted average period for which rate is fixed Years
At 31 March 2001					
Sterling	**333.7**	159.7	174.0	7.7	9.1
US Dollar	**2.1**	2.1	–	–	–
Euro	**71.7**	23.7	48.0	6.1	5.7
Other	**30.8**	28.4	2.4	6.7	1.6
Total	**438.3**	**213.9**	**224.4**	**7.3**	**8.3**
At 31 March 2000					
Sterling	188.3	14.0	174.3	7.7	10.1
US Dollar	69.5	57.9	11.6	6.5	4.0
Euro	66.7	16.4	50.3	6.1	6.7
Other	17.1	15.4	1.7	6.6	1.4
Total	341.6	103.7	237.9	7.3	9.0

Elements of fixed rate debt maturing in less than one year are treated as floating rate debt for interest rate risk purposes.
The above table takes account of the effect of interest rate swaps on the currency and interest rate nature of the Group's exposure.
The interest rates on floating rate financial liabilities in material currencies are based upon LIBOR.

31. Derivatives and other Financial Instruments continued

(b) Currency exposures

The table below shows the Group's transactional currency exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the relevant local operating company involved, other than the non-sterling borrowings treated as hedges of net assets in overseas operations.

	Net foreign currency monetary assets/(liabilities) in £'m				
	Sterling	US Dollar	Euro	Other	**Total**
At 31 March 2001					
Functional currency of Group operations:					
Sterling	–	0.5	–	(1.0)	**(0.5)**
US Dollar	0.1	–	–	3.1	**3.2**
Total	**0.1**	**0.5**	**–**	**2.1**	**2.7**
At 31 March 2000					
Functional currency of Group operations:					
Sterling	–	(16.6)	–	(0.8)	(17.4)
US Dollar	0.1	–	–	0.2	0.3
Other	0.3	1.2	0.3	0.4	2.2
Total	0.4	(15.4)	0.3	(0.2)	(14.9)

The amounts shown in the table above take into account the effect of any forward contracts and other derivatives entered into to manage these currency exposures.

(c) Maturity of financial liabilities and borrowing facilities

The maturity profile of the Group's financial liabilities, other than short term creditors such as trade creditors and accruals, was as follows:

	31 March 2001 £'m	31 March 2000 £'m
In one year or less, or on demand	**202.0**	103.0
In more than one year but less than two years	**5.0**	3.8
In more than two years but less than five years	**28.0**	19.5
In more than five years	**203.3**	215.3
Total	**438.3**	341.6

The Group has various borrowing facilities available to it. The undrawn committed facilities available in respect of which all conditions precedent had been met at that date, were as follows:

	31 March 2001 £'m	31 March 2000 £'m
In more than two years	**41.7**	136.4

(d) Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the Group's financial assets/(liabilities). The fair values of financial assets/(liabilities) are the discounted amount of future cash flows based on the Group's current incremental rate of borrowing for a similar financial asset/(liability).

	31 March 2001 Book Value £'m	**31 March 2001 Fair Value £'m**	31 March 2000 Book Value £'m	31 March 2000 Fair Value £'m
Primary financial liabilities held or issued to finance the Group's operations:				
Short term financial liabilities and current portion of long term borrowings	**(201.5)**	**(201.5)**	(102.5)	(102.5)
Finance leases	**(0.7)**	**(0.7)**	(1.1)	(1.1)
Long term borrowings	**(236.1)**	**(250.6)**	(238.0)	(235.7)
Cash deposits and liquid resources	**57.4**	**57.4**	62.4	62.4
Derivative financial instruments held or issued to hedge translational currency exposure:				
Cross-currency interest rate swaps	**–**	**3.5**	–	2.7
Forward foreign currency contracts	**–**	**0.1**	–	(0.6)
Derivative financial instruments held or issued to hedge transactional currency exposure:				
Forward foreign currency contracts	**–**	**0.1**	–	0.2
Forward currency option contracts	**–**	**–**	–	0.4

(e) Hedges

Gains and losses on instruments for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	12 months to 31 March 2001 Gains £'m	**12 months to 31 March 2001 Losses £'m**	**12 months to 31 March 2001 Total net gains/(losses) £'m**	13 months to 31 March 2000 Gains £'m	13 months to 31 March 2000 Losses £'m	13 months to 31 March 2000 Total net gains/(losses) £'m
Unrecognised gains and losses on hedges at 1 April 2000 (1 March 1999)	**3.3**	**(0.6)**	**2.7**	0.3	–	0.3
Gains and losses arising in previous periods that were recognised in 2001 (2000)	(0.6)	0.6	**–**	(0.3)	–	(0.3)
Gains and losses arising before 1 April 2000 (1 March 1999) that were not recognised in 2001 (2000)	**2.7**	**–**	**2.7**	–	–	–
Gains and losses arising in 2001 (2000) that were not recognised in 2001 (2000)	1.0	–	**1.0**	3.3	(0.6)	2.7
Unrecognised gains and losses on hedges at 31 March 2001 (2000)	**3.7**	**–**	**3.7**	3.3	(0.6)	2.7
Of which:						
Gains and losses expected to be recognised in 2002 (2001)	0.8	–	**0.8**	0.9	(0.6)	0.3
Gains and losses expected to be recognised in 2002 (2001) or later	2.9	–	**2.9**	2.4	–	2.4

32. Pension Costs

The Group continues to operate both defined benefit and defined contribution pension plans both in the UK and overseas.

UK Pensions

(a) Defined contribution schemes

Since 1995, the Group has operated a contracted-in defined contribution scheme which is open to UK employees. It also operates defined contribution executive pension plans for certain senior executives. Employer contributions are charged to the profit and loss account in the period in which they are incurred.

The total pension costs for the Group in respect of defined contribution schemes was £1.8 million (2000: £1.3 million).

(b) Defined benefit schemes

The Group continues to operate a number of defined benefit schemes following the mergers of Seton Healthcare Group plc and Scholl PLC to form Seton Scholl in 1998, and the subsequent merger of Seton Scholl and LIG in 1999. The finances of all schemes are assessed regularly by independent qualified actuaries and all assets of the schemes are held in separate trustee administered funds. The schemes have provided benefits for employees as outlined below:

(i) Seton

Prior to 1995, the Group operated a defined benefit scheme for employees. Accrual of further service-related benefits under this scheme ceased in August 1995, but existing benefits at that date are being maintained. The most recent valuation was made by independent actuaries at 28 February 2000. The assumptions which have the most significant effect on the results of the valuation are as follows:

Return on investments per annum	8%
Salary increases per annum	6%

The actuarial value of the scheme's assets was £11.0 million. The valuation showed that the scheme's assets were sufficient to cover 100.3 per cent of the benefits that had accrued to members after allowing for expected future increases in earnings. There was no pension charge for the year for this scheme, (2000: Nil) and there is no pension prepayment or provision in the balance sheet at 31 March 2001 (2000: Nil).

(ii) Scholl

Accrual of further service related benefits under this defined benefit scheme ceased in August 2000, but benefits accrued to 31 August 2000 continue to be provided from the scheme. The most recent valuation by independent actuaries was at 5 April 2000. The assumptions which have the most significant effect on the results of the valuation are as follows:

Return on investments per annum			5.3%
Salary increases per annum			5%
Pension increases	– pensions accrued before 6 April 1997	– closed section	3%
		– open section	2.25%
	– pensions accrued after 5 April 1997	– closed section	3.25%
		– open section	2.75%

The market value of the scheme's assets was £25.8 million. The valuation showed that the scheme's assets were sufficient to cover 105 per cent of the benefits that had accrued to members after allowing for expected future increases in earnings. The surplus is being reduced by a reduction in employer pension contributions for 4 years. The total cost to the Group in the year in respect of this scheme was £0.3 million, (2000: £0.5 million). An amount of £1.0 million, (2000: £1.1 million) is included in prepayments.

(iii) LIG

Accrual of further service-related benefits under this defined benefit scheme ceased in January 2001, but benefits accrued to 31 January 2001 continue to be provided from the scheme. The latest actuarial valuation of the scheme was at 1 April 2000. The actuarial assumptions that have the most significant effect on the results of the valuation are as follows:

Return on investments per annum (pre-retirement)	6.75%
Return on investments per annum (post-retirement)	5.25%
Salary increases per annum	4.25%

The market value of the assets was £101.5 million, which was sufficient to cover 80 per cent of the benefits that had accrued to members after allowing for expected future increases in earnings. This represents a deficit of £25.5 million when compared with the scheme's liabilities. The deficit is being charged to the profit and loss account over the assumed average service life of the members. The pension cost to the Group in the year in respect of this scheme was £3.7 million (2000: £3.9 million) which includes a variation charge of £2.0 million (2000: £0.8 million), all of which has been charged against operating profit. An accrual of £0.4 million (2000: £0.5 million) is included in the balance sheet at 31 March 2001.

Overseas pensions and similar obligations

The Group has a number of pension schemes in different countries both defined benefit and defined contribution. Defined benefit schemes are set up under separate trust funds and liabilities are generally assessed annually in accordance with the advice of independent actuaries.

There are no other significant post retirement benefits payable by any Group company.

33. Restatement of Prior Period Accounts (see note 2(c))

(a) Analysis of Consolidated Profit and Loss Account for the period ended 31 March 2000 and the year ended 28 February 1999

	13 Months to 31 March 2000 *as previously stated* £'m	Adjustments £'m	13 Months to 31 March 2000 *as restated* £'m	12 Months to 28 February 1999 *as previously stated* £'m	Adjustments £'m	12 Months to 28 February 1999 *as restated* £'m
Turnover	704.7	(4.8)	699.9	631.0	(17.1)	613.9
Operating costs	(568.9)	(0.5)	(569.4)	(531.0)	3.2	(527.8)
Group operating profit before exceptional items	135.8	(5.3)	130.5	100.0	(13.9)	86.1
Exceptional items	(65.0)	3.8	(61.2)	(43.2)	0.4	(42.8)
Share of operating profit in associated undertakings	–	–	–	0.5	–	0.5
Total operating profit	70.8	(1.5)	69.3	57.3	(13.5)	43.8
Termination and merger items	(78.1)	–	(78.1)	(10.7)	–	(10.7)
(Loss)/profit on ordinary activities before finance charges	(7.3)	(1.5)	(8.8)	46.6	(13.5)	33.1
Finance charges (net)	(19.2)	–	(19.2)	(13.6)	–	(13.6)
(Loss)/profit on ordinary activities before taxation	(26.5)	(1.5)	(28.0)	33.0	(13.5)	19.5
Tax on (loss)/profit on ordinary activities	(22.7)	(0.7)	(23.4)	(13.6)	1.1	(12.5)
(Loss)/profit on ordinary activities after taxation	(49.2)	(2.2)	(51.4)	19.4	(12.4)	7.0
Equity minority interests	(0.2)	–	(0.2)	(0.4)	–	(0.4)
(Loss)/profit for the financial period	(49.4)	(2.2)	(51.6)	19.0	(12.4)	6.6

(b) Analysis of Consolidated Balance Sheets at 31 March 2000 and at 28 February 1999

	31 March 2000 *as previously stated* £'m	Adjustments £'m	31 March 2000 *as restated* £'m	28 February 1999 *as previously stated* £'m	Adjustments £'m	28 February 1999 *as restated* £'m
Fixed Assets						
Intangible assets	77.6	–	77.6	77.3	–	77.3
Goodwill	41.3	–	41.3	15.7	–	15.7
Tangible assets	125.7	–	125.7	120.0	–	120.0
Investments	3.5	–	3.5	3.3	–	3.3
Investments in own shares	0.3	–	0.3	0.3	–	0.3
	248.4	–	248.4	216.6	–	216.6
Stocks	94.1	6.8	100.9	119.8	4.8	124.6
Debtors	238.7	(21.9)	216.8	181.0	(18.3)	162.7
Cash and deposits	62.4	–	62.4	47.3	–	47.3
Creditors	(537.2)	0.9	(536.3)	(441.1)	1.1	(440.0)
Provisions for liabilites and charges	(37.0)	(0.4)	(37.4)	(23.5)	–	(23.5)
Net assets	69.4	(14.6)	54.8	100.1	(12.4)	87.7
Capital and reserves – equity						
Called up share capital	18.8	–	18.8	18.8	–	18.8
Share premium account	35.7	–	35.7	33.9	–	33.9
Other reserves	136.8	–	136.8	131.7	–	131.7
Property revaluation reserve	–	–	–	1.0	–	1.0
Profit and loss account	(121.9)	(14.6)	(136.5)	(86.0)	(12.4)	(98.4)
Shareholders' funds	69.4	(14.6)	54.8	99.4	(12.4)	87.0
Equity minority interests	–	–	–	0.7	–	0.7
Total capital employed	69.4	(14.6)	54.8	100.1	(12.4)	87.7

Five Year Record

	Note	1997 Seton £'m	1997 Scholl £'m	1997 LIG £'m	1998 Seton Scholl £'m	1998 LIG £'m	1999 SSL as restated £'m	2000 SSL as restated £'m	**2001 SSL £'m**
Turnover		102.9	211.9	339.2	293.2	344.8	613.9	699.9	**649.3**
Total operating profit before exceptional items		23.1	20.4	38.4	51.8	45.1	86.6	130.5	**116.0**
Finance charges (net)		(3.3)	0.2	(6.0)	(4.7)	(5.9)	(13.6)	(19.2)	**(24.7)**
Profit before taxation and exceptional items		19.8	20.6	32.4	47.1	39.2	73.0	111.3	**91.3**
Net cash inflow from operating activities	1	15.2	24.5	48.9	56.0	35.1	114.0	110.5	**106.3**
Capital expenditure		6.5	6.6	13.9	16.7	15.2	29.3	39.4	**47.7**
Shareholders' funds		(2.8)	95.3	62.5	79.5	57.5	87.0	54.8	**55.2**
Cumulative goodwill written off		127.7	20.1	70.4	195.6	63.6	262.0	226.4	**226.4**
Operating profit on sales before exceptional items (%)		22.4%	9.6%	11.3%	17.7%	13.1%	14.1%	18.6%	**17.9%**
Adjusted earnings per share before exceptional items (pence)	2	27.8	16.0	6.4	29.5	8.1	29.8	45.6	**38.9**
Dividends per share (pence)		8.8	7.7	2.8	10.0	3.2	11.0	12.0	**12.3**
Dividend cover (times)	3	3.2	2.1	2.6	2.9	2.6	2.2	3.7	**2.9**
Average number of employees (number)		1,077	1,667	4,880	2,940	4,934	7,734	7,491	**7,877**
Interest cover (times)	3	7.0	n/a	6.9	11.0	7.9	6.4	6.8	**4.7**
Share price (period end) (pence)		496.0	299.0	176.0	555.0	181.0	855.0	554.0	**480.0**

In 1997 the table above reflects the results of Seton Healthcare Group plc for the year 28 February1997; of Scholl PLC for the year ending 31 December 1996 and of LIG for the year ending 31 March 1997. In 1998 the table reflects the results of Seton Scholl for the year ended 28 February 1998, and of LIG for the year ended 31 March 1998. In 1999 the table reflects the results of SSL for the 12 months ending 28 February 1999.
In 2000 the table reflects the results of SSL for the 13 months ending 31 March 2000. In 2001 the table reflects the results of SSL for the 12 months ending 31 March 2001. The results for the 12 months ending 28 February 1999 and the 13 months ending 31 March 2000 have been restated for the prior period adjustments as discussed in the Financial Review.

Notes
1 Net cash from operating activities is stated before exceptional items.
2 Adjusted earnings per share for 1998, 1999, 2000 and 2001 exclude the after tax effects of the exceptional items and amortisation of intangible fixed assets.
3 Interest cover and dividend cover exclude the effect of the exceptional items.

Financial Calendar

2001

12 July 2001	Annual General Meeting
1 August 2001	Dividend Payment (subject to approval)
December 2001	Interim Results

2002

31 January 2002	Interim Dividend Payment (if proposed)
June 2002	Preliminary Results
July 2002	Annual General Meeting

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