Avon Rubber p.l.c.
company number 32965

Directors' report

for the year ended 30 September 2000

The directors submit the one hundred and tenth annual report and audited financial statements of the Company for the year ended 30 September 2000.

1 Principal activities and business review

The principal activities of the Group are:

- Design and manufacture of components for the automotive industries
- Design and manufacture of other polymer based products

The business review, including commentary on future developments, is covered on pages 2 to 15.

2 Results and dividend

The Group profit for the year before taxation and exceptional items amounts to £12,385,000 (1999: £20,484,000). The Group profit for the year after taxation and minority interests amounts to £3,495,000 (1999: £15,782,000). An interim dividend of 7.0p per share (1999:7.0p) was paid on 30 June 2000. The directors recommend a final dividend of 17.2p per share (1999: 17.2p) making a total of 24.2p per share for the year to 30 September 2000 (1999: 24.2p). Full details are set out in the profit and loss account on page 27. The total distribution of dividends for the year to 30 September 2000 is £6,735,000 (1999: £6,733,000).

3 Directors

The names of the directors as at 14 December 2000 are set out on page 16. None of the directors has a beneficial interest in any contract to which the parent company or any subsidiary was a party during the year. Beneficial interests of directors, their families and trusts in ordinary shares of the Company can be found on page 23.

Mr. T.C. Bonner and Mr. T.K.P. Stead retire in rotation as directors and, being eligible, offer themselves for re-election.

Mr. T.K.P. Stead has a service contract with the Company requiring two years' notice of termination, subject to retirement at age 60.

4 Substantial shareholdings

At 24 November 2000, the following shareholders held 3% or more of the Company's issued ordinary share capital.

Schroder Investment Management Limited	8.68%
M&G Investment Management Limited	7.19%
Deutsche Asset Management	6.60%
Jupiter Asset Management Limited	6.07%
Legal & General Investment Management Limited	5.62%
Aberforth Partners	5.34%
Edinburgh Fund Managers plc	5.11%
Advance Value Realisation Company Limited	3.17%

5 Political and charitable contributions

No political contributions were made during the year. Contributions for charitable purposes amounted to £65,000 (1999: £66,000).

6 Creditor payment policy

Operating businesses are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Group policy that payments are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions.

For the year ended 30 September 2000, the number of days' purchases outstanding at the end of the financial year for the Group was 46 days (1999: 48 days) based on the ratio of trade creditors at the end of the year to the amounts invoiced during the year by trade creditors. On the same basis the number of days' purchases outstanding for the parent company was 20 days (1999: 8 days).

Directors' report continued

for the year ended 30 September 2000

7 Disabled persons

It is the policy of the Group to encourage the employment and development of suitable disabled persons. No unnecessary limitations are placed on the type of work that they perform and the policy ensures that in appropriate cases consideration is given to modifications to equipment or premises and to adjustments in working practices. Full and fair consideration will be given to disabled applicants for employment and existing employees who become disabled will have the opportunity to retrain and continue in employment.

8 Employee involvement

Employee consultation, communication and involvement have long been recognised as being of great value and these practices will be maintained as a vital element in our drive to achieve the highest standards of training and development. Consultation enables employees' views to be taken into account in matters which may affect their interests and, as part of our continuous improvement activity, supervisors and employees meet regularly to tackle problems together in a teamwork atmosphere.

In its UK operations the Company has been recognised as an Investor In People (IIP) and will be using the IIP framework in its businesses around the world.

9 Research and development

As explained on page 32, the Group has changed its accounting policy and now capitalise expenditure on product development for vibration systems where the products will provide long term commercial benefits. In total £5.2 million of costs have been incurred on research and development of which £1.4 million has been capitalised as product development costs.

The Group has continued to strengthen its technology base in order to meet the growing challenges from its world-wide customers. The Materials Development Centre in the UK and the Product Development Centre in the US now provide strong technical support to our global manufacturing operations and maintain close links with the Group's major suppliers and customers - often through joint development programmes. The Group's products increasingly exploit the competitive benefits of plastics, thermoplastic elastomers in addition to the new and well established rubber polymers. Work with universities continues in the areas of mixing, adhesion and surface engineering. In April of this year Avon Rubber and Plastics Inc. was awarded the contract for the initial phase of design and development of the new Joint Service General Purpose Mask for the US Department of Defense.

10 Health, safety and the environment

The directors consider the health, safety and environmental protection aspects of our business to be of great importance, as the prevention of personal injury, the avoidance of damage to health and the protection of the environment contribute to the running of an efficient business.

Management practices within the Group will ensure, so far as is reasonably practicable, the health, safety and welfare at work of our employees, contractors and visitors, the health and safety of all other persons affected by our business activities and the effective planning and implementation of environmental controls, in line with appropriate legislation, standards and best practice.

11 Auditors

A resolution to re-appoint PricewaterhouseCoopers as auditors will be proposed at the annual general meeting.

By order of the Board

C.L. Martin, Secretary
Bradford on Avon, Wiltshire
14 December 2000

Avon Rubber p.l.c
company number 32965

Corporate governance

Statement of compliance with the Combined Code

The Company believes in high standards of corporate governance and the Board is accountable to shareholders for the Group's performance in this area. This statement describes how the Group is applying the relevant principles of governance, as set out in the Combined Code of the Principles of Good Governance and Code of Best Practice ("the Combined Code") annexed to the Listing Rules of the Financial Services Authority. For this purpose this statement will address separately the four main subject areas of the Combined Code namely the Board, Directors' remuneration, Relations with shareholders and Accountability and audit.

The Company has complied throughout the year with the provisions of the Combined Code. Additionally, the Group has adopted the transitional approach to disclosure set out in the letter from the London Stock Exchange to all UK listed companies dated 27th September, 1999 and the Board confirms that it has established the procedures necessary to implement the guidance "Internal Control: Guidance for Directors on the Combined Code" ("the Turnbull Report").

1 The Board

The Avon Board currently comprises a Non-Executive Chairman, two other independent Non-Executive Directors, the Chief Executive and three other Executive Directors. Biographies of the directors appear on page 16 and these illustrate the range of business, financial and global experience which the Board is able to call upon. This reflects the specific intention of the Board that its membership should be well balanced both numerically and in terms of experience.

The Board is satisfied that all its Non-Executive members are independent. One of their roles is to undertake detailed examination and discussion of strategies proposed by the Executive Directors so as to ensure that decisions are in the best long-term interests of shareholders and take proper account of the interests of the Company's other stakeholders. The Non-Executive Directors fully review the Group's operational performance and the Board as a whole has, with a view to reinforcing its control of the Company, reserved a number of important powers solely to itself.

In order to achieve the foregoing objectives, all directors have full and timely access to all relevant information and the Board meets regularly with appropriate contact between meetings. Procedures are in place, which have been agreed by the Board, for directors in the furtherance of their duties to take independent professional advice if necessary at the Company's expense.

Mr. T.C.Bonner, CBE, who is Deputy Chairman, was appointed senior independent director in July 1998. In the same year, the Board obtained shareholder approval to a change in the Articles of Association under which all directors, whether Executive or Non-Executive, are obliged to retire and, if appropriate, seek re-election by the shareholders at least every three years. Additionally, the Non-Executive Directors are appointed by the Board for specified terms, and reappointment is not automatic.

Of particular importance in a governance context are the three committees of the Board, namely the Remuneration Committee, the Nominations Committee and the Audit Committee. These committees comprise, solely, all the Non-Executive Directors; the Remuneration and Nominations Committees are chaired by Mr C.P.King and the Audit Committee is chaired by Mr T.C.Bonner.

The Remuneration Committee's principal responsibilities are to make recommendations to the Board on remuneration policy and to determine remuneration packages and other terms and conditions, including appropriate performance related benefits, for Executive Directors and other senior executives. The Chief Executive attends meetings of the Committee by invitation, but is absent when issues relating to him are discussed.

The Nominations Committee, to which the Chief Executive is normally invited, reviews the Board structure, identifies candidates to fill vacancies on the Board and addresses board level succession planning. In identifying potential candidates for positions as Non-Executive Directors, the Committee has full regard to the principles of the Combined Code regarding the independence of Non-Executive Directors.

The Audit Committee meets twice a year. The meetings are also attended by representatives of the Group's internal and external auditors and such of the Executive Directors as are appropriate to the items under discussion. At all meetings time is allowed for the Audit Committee to discuss issues with the external auditors with no Executive Directors present. As well as reviewing draft preliminary and interim statements, the Committee considers reports prepared by the internal and external auditors and monitors all services provided by, and fees payable to, the external auditors to ensure that an objective and professional relationship is maintained. As part of its work, and in line with its terms of reference, the Committee particularly considers the discharge of the Board's responsibilities in the areas of corporate governance, financial reporting and corporate control.

Corporate governance continued

Statement of compliance with the Combined Code

2 Directors' remuneration

Remuneration of the Company's Non-Executive Directors is determined by the Board, following research undertaken by the Group Personnel Director and advice from independent external sources. The Non-Executive Directors do not vote on any remuneration issue affecting themselves.

The Company's policy on Executive Directors' remuneration, as set out in the two following paragraphs, has been prepared by the Remuneration Committee and approved by the full board of directors.

The Remuneration Committee seeks to establish an overall package of salary, incentives, pension and other benefits which will be competitive when compared with other manufacturing companies of a similar size and global spread.

The Remuneration package takes into account the linkage between pay and performance by both rewarding effective management and by making the enhancement of shareholder value a critical factor in the setting of incentives, whether in the short or longer term.

The Remuneration Committee has considered the conclusions of the Hampel Committee with regard to the notice period given to Executive Directors for termination of their service contracts. Currently this notice period stands at 24 months. The Committee believes that this continues to be appropriate and enables the Company to be competitive, attracting directors of the calibre necessary to run a diverse multi-national business. The Remuneration Committee strongly endorses the principle of mitigation of loss on early termination of a service contract and takes care to ensure that poor performance is not rewarded.

Executive Directors' remuneration comprises four elements: -

Salary

In setting salaries consideration is given to the Executive Directors' experience and responsibility. Comparisons with other companies of a similar size and global spread, as well as consideration of the rates of salary increases within the Company as a whole, are also taken into account when salaries are set or increases are given. Executive Director salaries are reviewed annually.

Bonus

Bonus is based on annual targets set by the Remuneration Committee linked to the Company's financial performance. The targets are set before the start of the financial year and are designed to be stretching. Two elements are normally used, profit before taxation and cashflow performance. Both these elements link directly to enhanced shareholder value.

As further linkage to the enhancement of shareholder value, 50% of any bonus paid is used to buy Company shares as part of the Long-term Incentive Plan.

Bonus payments are not pensionable.

Pension and other benefits

Executive Directors are members of the Senior Executive Section of the Avon Rubber Retirement and Death Benefit Plan, a contributory defined benefit scheme based on length of service and earnings. The levels of contribution from the scheme members and the Company are assessed annually. For the year ended 30 September 2000 the contribution rates were 5.5% from the members and 10.1% from the Company including National Insurance rebates. For Mr. R.A.Hunt and Mr. T.K.P.Stead, who joined the Company after the introduction of the pensionable salary cap, a funded unapproved retirement benefits scheme has been put in place. Executive Directors are provided with private health insurance for themselves and applicable members of their immediate families and are also able to participate in the Company's SAYE Share Option Scheme.

Long-term incentive plan

In 1996 a Long-term Incentive Plan was approved by shareholders. Executive Directors use 50% of any annual bonus to purchase Company shares (contributed shares) on the open market, at the time that the bonus is awarded. Three years from the date of purchase of the contributed shares, matching shares may be awarded up to three times the number of the contributed shares, based on total shareholder return over the period.

Total shareholder return is measured against a comparator group of small and medium capitalised companies. To achieve the maximum award of three times the number of contributed shares, the Company must be in the top 20% of its comparator group. The measurement of performance is carried out independently.

An account of directors' participation in the Long-term Incentive Plan, and in Share Option Schemes, together with details of directors' emoluments, pensions and interests in Company's shares, is set out on pages 22 to 24.

Corporate governance continued

Statement of compliance with the Combined Code

3 Relations with shareholders

We regard communications with shareholders as extremely important. In terms of published materials the Company issues carefully prepared annual reports and accounts and, at the half year, an interim report. Dialogue takes place regularly with institutional shareholders and general presentations are given following the preliminary and interim results. Shareholders have the opportunity to ask questions at the annual general meeting and also have the opportunity to leave written questions for the Company's response. Directors meet informally with shareholders after the annual general meeting and the Company responds throughout the year to correspondence from individual shareholders on a wide range of issues.

At the annual general meeting on 17 January 2001 the Board will be following the recommendations in the Combined Code regarding the constructive use of annual general meetings; in particular, the agenda will include a presentation by the Chief Executive on aspects of the Company's business.

4 Accountability and audit

The Combined Code has introduced a requirement that directors review the effectiveness of the Group's system of internal controls. This requirement extends the directors' review to cover all controls including operational compliance controls and risk management as well as financial controls. As indicated earlier, the Board has established the procedures necessary to implement the guidance contained within the Turnbull Report.

The directors acknowledge their responsibility for the Group's system of internal financial control and the Board reviews this system and its effectiveness on an annual basis. Such a system can provide only reasonable, and not absolute, assurance against material misstatements or losses. The following paragraphs describe relevant key procedures within the Group's systems of internal financial control and the process by which the directors have reviewed their effectiveness.

- Systems exist throughout the Group which provide for the creation of three year plans and annual budgets; monthly reports enable the Board to compare performance against budget and to take action where appropriate.
- An internal audit function is in place with staff in the UK and in the US.
- Procedures are in place to identify any major business risks and to evaluate their potential financial effects. In this connection the Board carries out a detailed annual review of the risks facing the Group at the top level. In the year under review, the risk assessments carried out both at business level and at main board level have been reviewed and strengthened as part of the Board's response to the guidance contained within the Turnbull Report. Additionally, some years ago, the Board created a Risk Management Steering Group with the objective of enhancing the risk management culture within the Group, of assisting businesses to identify and control their risks and to make policy proposals to the Board in this area.
- There is a clearly defined delegation of authority from the Board to the operating companies, with appropriate reporting lines from business managers to individual Executive Directors.
- There are procedures for the authorisation of capital expenditure and investment, together with procedures for post-completion appraisal.
- Internal financial controls are in existence which provide reasonable assurance of the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.
- The Board has issued a Policy and Code on Business Conduct which reinforces the importance of the internal financial controls. This Policy and Code is reviewed annually.
- Although the Board itself retains the ultimate power and authority in relation to decision making, the Audit Committee of the Board of Directors meets regularly with management and external and internal auditors to review specific accounting, reporting and financial control matters. The Committee also reviews the interim, preliminary and annual statements.

Going concern

After making enquiries the directors have, at the time of approving the financial statements, formed a judgement that there is a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Corporate governance continued

Statement of compliance with the Combined Code

Executive share incentive scheme 1996 ("the 1996 Scheme")

At the 1996 annual general meeting shareholders approved the 1996 Scheme, a description of which was contained in the 1995 report and accounts. Briefly, the 1996 Scheme provides that executive directors will take a percentage of any annual bonus in the form of shares on the basis that three years later a number of matching shares (up to a maximum of three times the number of shares taken as part of any annual bonus) may be awarded, dependent on the Group's performance in terms of total shareholder return as compared with a comparator group of companies. In the year under review Executive Directors and other senior employees bought a total of 2,986 shares as part of their annual bonus for the 1998/99 financial year.

The maximum number of shares comprised in the conditional awards to directors and senior employees under this scheme in the three most recent years of operation are as follows:

	Total grants outstanding	Granted 2000	Granted 1999	Granted 1998
S.J. Willcox	**24,846**	**2,724**	14,034	8,088
I.A.H. McPhie	**15,720**	**-**	9,927	5,793
S.J. Stone	**15,627**	**1,413**	9,090	5,124
R.A. Hunt	**10,629**	**1,233**	7,878	1,518
T.K.P. Stead	**1,149**	**1,149**	-	-
Other senior employees	**16,923**	**2,439**	9,618	4,866

In accordance with the rules of the scheme, the conditional awards to Mr. I.A.H. McPhie did not lapse when he left the Board in January 1999.

The conditional awards of matching shares made in 1997, the first year of the scheme's operation, have now lapsed, following analysis of the group's performance in terms of total shareholder return as compared with the comparator group.

In accordance with UITF 17, the fair value of the shares at the date the conditional award was granted is charged to the profit and loss account over the performance period.

Pensions

All the executive directors are currently members of the Group's Senior Executive Section of the Avon Rubber Retirement and Death Benefit Plan. Subject to Inland Revenue limits, members are eligible for a pension of up to two thirds of final pensionable salary upon retirement at the age of 60, provided that the minimum service requirement of 20 years has been met. Additionally, defined contribution schemes are in place for the benefit of Mr R.A. Hunt and Mr. T. K. P. Stead.

Directors' basic salaries are the only pensionable element of their remuneration packages.

Directors' emoluments

	Basic salary & fees	Other benefits	Annual bonus	Total emoluments excluding pensions		Pension * contributions		Total emoluments including pensions	
	£'000	£'000	£'000	2000 £'000	1999 £'000	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Executive									
S.J. Willcox (highest paid director)	214	18	-	232	234	-	-	232	234
R.A. Hunt	139	66	-	205	160	-	-	205	160
I.A.H. McPhie (until 20.1.99)	-	-	-	-	82	-	44	-	126
T.K.P. Stead	118	16	-	134	129	6	6	140	135
S.J. Stone	139	16	-	155	155	-	-	155	155
Non-Executive									
C.P. King CBE (Chairman)	45	-	-	45	43	-	-	45	43
T.C. Bonner CBE (Deputy Chairman)	20	-	-	20	19	-	-	20	19
J.W. Cutts (until 12.1.99)	-	-	-	-	5	-	-	-	5
G.T.E. Priestley	20	-	-	20	19	-	-	20	19
Total 2000	695	116	-	811	-	6	-	817	-
Total 1999	689	126	31	-	846	-	50	-	896

* Pension contributions represent the company's contribution to defined contribution schemes.

No director waived emoluments in respect of the year ended 30 September 2000.

Corporate governance continued

Statement of compliance with the Combined Code

Executive Directors' pensions

The Stock Exchange Listing Rules require the disclosure of certain additional information relating to the pensions of Executive Directors under defined benefit schemes. This information is set out below.

	S.J. Willcox	S.J. Stone	T.K.P. Stead	R.A. Hunt
Accrued entitlement as at 30 September 2000	£112,961 p.a.	£74,488 p.a.	£6,333 p.a.	£19,506 p.a.
Increase in accrued entitlement over the period in excess of the increase awarded to deferred pensioners	£9,668 p.a.	£7,579 p.a.	£3,014 p.a.	£3,307 p.a.
Contributions paid by each director over the period	£11,790	£7,544	£5,016	£5,016
Increase in the transfer value over the year (net of the director's contributions)	£72,046	£59,790	£34,424	£36,783

The accrued entitlement shown is the amount that would be paid each year at normal retirement age based on service to the end of the current year.

The accrued lump sum under the defined benefit scheme for the highest paid director at 30 September 2000 was £57,652 (1999: £52,148).

Directors' interests

Beneficial interests of directors, their families and trusts in ordinary shares of the company were:

	At the beginning of the year	At the end of the year
C.P. King CBE	6,000	16,000
T.C. Bonner CBE	2,000	4,000
R.A. Hunt	3,812	5,223
G.T.E. Priestley	12,000	12,000
T.K.P. Stead	2,000	2,383
S.J. Stone	10,578	11,049
S.J. Willcox	25,559	28,418

Additionally, the Company operates a qualifying employee share ownership trust ("Quest") which is used to deliver shares to employees exercising their options under the Savings Related Share Option Scheme. By virtue of their participation, or potential participation, in that Scheme, Mr. S.J. Willcox, Mr. S.J. Stone, Mr. T.K.P. Stead and Mr. R.A. Hunt have an interest in the shares held by the Quest. At 30 September 2000 136,578 shares were held in the Quest (2 October 1999: 137,044 shares).

There were no movements in directors' shareholdings between the end of the financial year and 14 December 2000.

Details of directors' share options held, exercised and granted during the year are as follows:

Executive share option scheme:

	Number of options at 3/10/99	Granted during the year	Exercised during the year	Number of options at 30/9/00	Exercise price (£)	Exercisable at any time up to
S.J. Willcox	24,000	-	-	24,000	5.81	Feb 2004
	60,000	-	-	60,000	5.10	Jun 2005
S.J. Stone	15,000	-	-	15,000	5.81	Feb 2004
	24,000	-	-	24,000	5.10	Jun 2005
R.A. Hunt	15,000	-	-	15,000	5.10	May 2005

Corporate governance continued

Statement of compliance with the Combined Code

Savings related share option schemes:

	Number of options at 3/10/99	Granted during the year	Exercised during the year	Number of options at 30/9/00	Exercise price (£)	Exercisable at any time up to
S.J. Willcox	841	–	–	841	3.80	2003
	3,253	–	–	3,253	5.01	2005
S.J. Stone	1,125	–	–	1,125	3.80	2001
	1,322	–	–	1,322	5.79	2002
	1,060	–	–	1,060	5.01	2003
R.A. Hunt	1,062	–	–	1,062	3.67	2002
	1,203	–	–	1,203	5.79	2002
	1,683	–	–	1,683	3.80	2003
	234	–	–	234	5.01	2003
T.K.P. Stead	–	3,052	–	3,052	3.14	2005

No directors' options have lapsed during the year unexercised.

As at 30 September 2000 other employees held options for 559,471 ordinary shares, exercisable between 2000 and 2007, at option prices ranging from £3.14 to £5.79.

All options are over ordinary shares of £1 each.

As at 30 September 2000, the market price of Avon Rubber p.l.c. shares was £2.22 (1999: £5.10). During the year the highest and lowest market prices were £5.15 and £2.03 respectively.

Statement of directors' responsibilities

for the year ended 30 September 2000

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

By order of the Board
C.L. Martin, Secretary
Bradford on Avon, Wiltshire
14 December 2000

Auditors' report

for the year ended 30 September 2000

Report of the auditors to the members of Avon Rubber p.l.c.

We have audited the financial statements on pages 27 to 55 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 32 to 33.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 25, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom 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 our profession's ethical guidance.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 19 to 24 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 to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 September 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Bristol
14 December 2000

Consolidated profit and loss account

for the year ended 30 September 2000

	Notes	2000 Before exceptional items £'000	2000 Exceptional items (note 5) £'000	2000 Total £'000	1999 Before exceptional items £'000	1999 Exceptional items £'000	1999 Total £'000
Turnover	2	277,997	-	277,997	266,164	-	266,164
Cost of sales		(231,842)	(1,984)	(233,826)	(214,012)	-	(214,012)
Gross profit		46,155	(1,984)	44,171	52,152	-	52,152
Net operating expenses (including £623,000 (1999: £163,000) goodwill amortisation)	3	(30,891)	(4,688)	(35,579)	(30,218)	-	(30,218)
Share of profits/(losses) of joint ventures and associates	4	161	-	161	(54)	-	(54)
Operating profit	2	15,425	(6,672)	8,753	21,880	-	21,880
Profit on disposal of fixed assets	6	-	25	25	-	1,422	1,422
Profit on ordinary activities before interest		15,425	(6,647)	8,778	21,880	1,422	23,302
Interest receivable	7	2,871	-	2,871	3,136	-	3,136
Interest payable	7	(5,911)	-	(5,911)	(4,532)	-	(4,532)
Profit on ordinary activities before taxation	8	12,385	(6,647)	5,738	20,484	1,422	21,906
Taxation	9	(4,360)	1,400	(2,960)	(5,759)	(498)	(6,257)
Profit on ordinary activities after taxation		8,025	(5,247)	2,778	14,725	924	15,649
Minority interests		717	-	717	133	-	133
Profit for the year		8,742	(5,247)	3,495	14,858	924	15,782
Dividends (including non-equity interests)	10	(6,735)	-	(6,735)	(6,733)	-	(6,733)
(Loss)/retained profit for the year	28	2,007	(5,247)	(3,240)	8,125	924	9,049
Earnings per ordinary share	11						
Basic				12.4p			56.8p
Before exceptional items		31.3p			53.5p		
Before goodwill amortisation and exceptional items		33.5p			54.1p		
Diluted				12.4p			56.7p

All the Group's turnover and profit was generated from continuing activities.

There is no material difference between the profit as stated above and that calculated on an historical cost basis.

Consolidated statement of total recognised gains and losses

for the year ended 30 September 2000

	Note	2000 £'000	1999 £'000
Profit for the year		3,495	15,782
Net exchange differences on overseas investments	28	309	(431)
Total gains and losses for the year		3,804	15,351

Reconciliation of movements in shareholders' funds

for the year ended 30 September 2000

	2000 £'000	1999 £'000
Opening shareholders' funds	89,557	80,405
Profit for the year	3,495	15,782
Dividends	(6,735)	(6,733)
Net exchange difference on overseas investments	309	(431)
New share capital subscribed (net)	–	534
Goodwill resurrected on disposal of subsidiary	1,337	-
Closing shareholders' funds	87,963	89,557
Equity shareholders' funds	87,463	89,057
Non-equity shareholders' funds	500	500
	87,963	89,557

Avon Rubber p.l.c.
company number 32965

Consolidated balance sheet

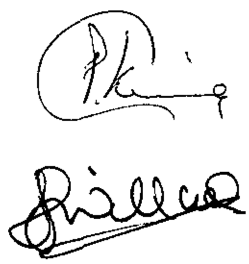
at 30 September 2000

		2000		1999 (restated)	
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	14		**13,154**		13,338
Tangible assets	15		**112,687**		102,102
Investments	17		**1,051**		900
			126,892		116,340
Current assets					
Stocks	20	**26,836**		24,014	
Debtors - Amounts falling due within one year	21	**56,528**		57,029	
Debtors - Amounts falling due after more than one year	21	**8,146**		5,772	
Cash at bank and in hand		**7,585**		17,336	
		99,095		104,151	
Creditors					
Amounts falling due within one year	22	**71,782**		67,215	
Net current assets			**27,313**		36,936
Total assets less current liabilities			**154,205**		153,276
Creditors					
Amounts falling due after more than one year	23	**56,116**		55,115	
Provisions for liabilities and charges	25	**8,385**		6,276	
			64,501		61,391
Net assets			**89,704**		91,885
Capital and reserves					
Share capital	27		**28,324**		28,324
Share premium account	28		**34,070**		34,070
Revaluation reserve	28		**2,575**		2,723
Profit and loss account	28		**22,994**		24,440
Shareholders' funds (including non-equity interests)			**87,963**		89,557
Minority interests (equity interests)			**1,741**		2,328
			89,704		91,885

The restatement of 1999 reflects the change in accounting policy detailed on page 32.

These financial statements were approved by the board of directors on 14 December 2000 and were signed on its behalf by:

C.P. King CBE
S.J. Willcox



Avon Rubber p.l.c
company number 32965

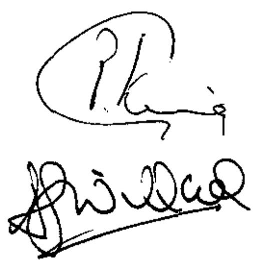
Parent company balance sheet

at 30 September 2000

	Note	2000 £'000	2000 £'000	1999 £'000	1999 £'000
Fixed assets					
Tangible assets	16		**1,786**		21,674
Investments	18		**82,585**		90,437
			84,371		112,111
Current assets					
Debtors	21	**10,591**		10,321	
Cash at bank and in hand		**47,219**		32,590	
		57,810		42,911	
Creditors					
Amounts falling due within one year	22	**36,639**		45,666	
Net current assets/(liabilities)			**21,171**		(2,755)
Net assets			**105,542**		109,356
Capital and reserves					
Share capital	27		**28,324**		28,324
Share premium account	29		**34,070**		34,070
Merger reserve	29		**16,439**		16,439
Revaluation reserve	29		**561**		709
Profit and loss account	29		**26,148**		29,814
Shareholders' funds (including non-equity interests)			**105,542**		109,356

These financial statements were approved by the board of directors on 14 December 2000 and were signed on its behalf by:

C.P. King CBE
S.J. Willcox



Consolidated cash flow statement

for the year ended 30 September 2000

	Note	£'000	2000 £'000	£'000	1999 £'000
Net cash inflow from operating activities	31		18,320		22,226
Returns on investments and servicing of finance					
Interest received		2,792		3,094	
Interest paid		(6,945)		(4,867)	
Interest paid on finance leases		(62)		(118)	
Preference dividends paid		(35)		(35)	
			(4,250)		(1,926)
Taxation					
Corporation tax paid			(4,112)		(4,215)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(22,912)		(35,358)	
Sale of tangible fixed assets		951		3,132	
			(21,961)		(32,226)
Acquisitions and disposals					
Purchase of subsidiary undertakings		-		(18,351)	
Net cash acquired		-		394	
Sale of subsidiary undertaking	30	2,465		-	
Cash transferred	30	(66)		-	
			2,399		(17,957)
Equity dividends paid			(6,700)		(6,394)
Net cash outflow before management of liquid resources and financing			(16,304)		(40,492)
Management of liquid resources					
Decrease in cash deposits treated as liquid resources			-		36,800
Financing					
Issue of ordinary shares		-		534	
Repayment of loans		(5,395)		-	
New loans		4,334		14,373	
New finance leases		-		194	
Principal payments under finance leases		(744)		(807)	
			(1,805)		14,294
(Decrease)/increase in cash in the period	32		(18,109)		10,602

Accounting policies

for the year ended 30 September 2000

Accounting policies

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets in accordance with applicable accounting standards in the United Kingdom. A summary of the more important Group policies is set out below, together with an explanation of where changes have been made to previous policies.

Change of accounting policy

Development costs were previously charged to the profit and loss account when incurred. An increase in the extent of development work for new vibration systems products, prior to commercial production, has resulted in significant costs being incurred from which it is expected to generate profitable revenue streams. Accordingly, the Group has capitalised such costs where the viability of these product developments can be ascertained with reasonable certainty. The costs will be amortised over the lives of the products to which the development costs relate.

This change in accounting policy has had no impact on the profit for last year. Approximately £0.5 million of development costs have been reclassified from current assets to development costs in the 1999 balance sheet which are included in intangible assets.

New financial reporting standards

During the year Financial Reporting Standards (FRS) 15 (Tangible Fixed Assets) and 16 (Current Tax) became effective. These standards have been reflected in these financial statements to the extent considered appropriate. In the adoption of FRS 15, the Group has decided to retain the book value of land and buildings (certain of which were revalued in 1996) and depreciate this value over the remaining useful economic lives of the buildings. Future additions will be included at cost.

Accounting period

The Company's accounting period ends on the Saturday nearest to 30 September each year. The period ended 30 September 2000 consisted of 52 weeks (1999: 52 weeks).

Consolidation

Subsidiaries acquired have been dealt with in the consolidated accounts using acquisition accounting. Upon the acquisition of a subsidiary, the fair values that reflect the condition at the date of acquisition are attributed to the identifiable assets and liabilities acquired. Adjustments are made to bring the accounting policies of subsidiaries acquired into alignment with those of the Group. Where the consideration paid exceeds the fair value of the acquired assets, the difference is treated as goodwill.

In accordance with the FRS 10 (Goodwill and Intangible Assets), goodwill arising on acquisitions made on or after 3 October 1998 is capitalised and amortised on a straight line basis over its useful economic life. Previously, all goodwill was written off against reserves in the year of acquisition. On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal is determined after including the attributable amount of purchased goodwill previously written off. The results of businesses acquired are included from the effective date of acquisition and businesses sold are included up to the date of disposal.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that the liability or asset will crystallise. Full provision is made for deferred taxation on timing differences arising from the provision of employee pensions and other post-retirement benefits.

Derivative financial instruments

Derivative financial instruments are used to reduce the exposure to foreign exchange and interest rate risks. Instruments qualify for hedge accounting where the underlying asset or liability has characteristics which can be directly related to the instrument transacted. The gains and losses on those instruments qualifying for hedge accounting are recognised in the financial statements over the life of the transaction.

Where a derivative financial instrument no longer meets the criteria for a hedge, the instrument is restated at market value and any gains or losses are taken direct to the profit and loss account. The Group excludes all short-term debtors and creditors from the derivatives and financial instruments disclosures (other than those on currency risk relating to monetary assets and liabilities).

Notes to the financial statements

for the year ended 30 September 2000

1 Parent company

As permitted by S230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's profit for the financial year was £2,900,000 (1999: £3,273,000).

2 Segmental information

(a) External sales by destination:	2000 £'000	1999 £'000
United Kingdom	46,621	51,655
Other European	93,167	73,776
North America	133,933	133,926
Rest of World	4,276	6,807
	277,997	266,164

	2000			1999		
(b) By origin:	External sales £'000	Operating profit/(loss) £'000	Operating net assets £'000	External sales £'000	Operating profit £'000	Operating net assets £'000
Before exceptional operating items						
United Kingdom	84,054	(2,656)	70,880	90,621	3,298	54,220
Other European	59,591	6,023	33,443	41,385	3,743	37,399
North America	134,352	12,058	53,125	134,158	14,839	48,114
	277,997	15,425	157,448	266,164	21,880	139,733
Exceptional operating items (note 5)						
United Kingdom	-	(5,902)	-	-	-	-
Other European	-	(770)	-	-	-	-
North America	-	-	-	-	-	-
	-	(6,672)	-	-	-	-
After exceptional operating items						
United Kingdom	84,054	(8,558)	70,880	90,621	3,298	54,220
Other European	59,591	5,253	33,443	41,385	3,743	37,399
North America	134,352	12,058	53,125	134,158	14,839	48,114
	277,997	8,753	157,448	266,164	21,880	139,733

Inter segmental sales are not material.

Notes to the financial statements continued

for the year ended 30 September 2000

2 Segmental information (continued)

(c) By business sector:	2000 External sales £'000	2000 Operating profit £'000	2000 Operating net assets £'000	1999 External sales £'000	1999 Operating profit £'000	1999 Operating net assets £'000
Before exceptional operating items						
Automotive components	209,479	11,605	97,909	187,815	13,198	90,948
Technical products	68,518	3,820	59,539	78,349	8,682	48,785
	277,997	15,425	157,448	266,164	21,880	139,733
Exceptional operating items (note 5)						
Automotive components	–	(4,432)	–	–	–	–
Technical products	–	(2,240)	–	–	–	–
	–	(6,672)	–	–	–	–
After exceptional operating items						
Automotive components	209,479	7,173	97,909	187,815	13,198	90,948
Technical products	68,518	1,580	59,539	78,349	8,682	48,785
	277,997	8,753	157,448	266,164	21,880	139,733

Inter segmental sales are not material.

(d) Reconciliation of operating net asset analysis	2000 £'000	1999 £'000
Consolidated balance sheet	89,704	91,885
Borrowings	72,530	63,702
Interest bearing bank deposits	(4,786)	(15,854)
Operating net assets	157,448	139,733

(e) Directors and employees	2000 Year-end	2000 Average	1999 Year-end	1999 Average
The number of employees (including Executive Directors) during the year was:				
Automotive components	4,317	4,319	4,257	3,969
Technical products	1,117	1,215	1,494	1,448
Total	5,434	5,534	5,751	5,417

Notes to the financial statements continued

for the year ended 30 September 2000

3 Cost of sales and other operating income and expenses

	2000		
	Before exceptional items £'000	**Exceptional items (see note 5) £'000**	**Total £'000**
Turnover	**277,997**	**–**	**277,997**
Cost of sales	**(231,842)**	**(1,984)**	**(233,826)**
Gross profit	**46,155**	**(1,984)**	**44,171**
Distribution costs	**(7,083)**	**(694)**	**(7,777)**
Administrative expenses (including goodwill amortisation of £623,000)	**(25,198)**	**(3,994)**	**(29,192)**
Other operating income	**1,390**	**–**	**1,390**
Net operating expenses	**(30,891)**	**(4,688)**	**(35,579)**
Share of profits of joint ventures and associates	**161**	**–**	**161**
Operating profit	**15,425**	**(6,672)**	**8,753**

	1999		
	Before exceptional items £'000	Exceptional items £'000	Total £'000
Turnover	266,164	–	266,164
Cost of sales	(214,012)	–	(214,012)
Gross profit	52,152	–	52,152
Distribution costs	(6,405)	–	(6,405)
Administrative expenses (including goodwill amortisation of £163,000)	(24,939)	–	(24,939)
Other operating income	1,126	–	1,126
Net operating expenses	(30,218)	–	(30,218)
Share of losses of joint ventures and associates	(54)	–	(54)
Operating profit	21,880	–	21,880

Notes to the financial statements continued

for the year ended 30 September 2000

4 Joint ventures and associates

	2000 £'000	1999 £'000
Share of operating profit/(loss) in joint venture	**21**	(88)
Share of operating profit in associate	**140**	34
	161	(54)

The Group's share of the turnover of the joint venture was £213,000 (1999: £17,000).

	Share Capital	Held by the Group	Accounting Date	Basis of Consolidation
Joint Venture:				
Gold Seal-Avon Polymers PVT India	4,403,596 shares of 10 rupees each	50%	31 March	Audited accounts to 31 March 2000 Unaudited accounts to 30 September 2000
Associate:				
Ames-Avon Industries USA	2,000 shares of nil par value	49%	31 December	Audited accounts for 1999 Unaudited accounts to 30 September 2000

5 Exceptional operating items

Exceptional costs, during the year, resulted from the following rationalisation and reorganisation programme:

- Relocating manufacturing operations from the United Kingdom to low cost territories.
- Relocating manufacturing facilities for Technical Products to a new purpose built location in the United Kingdom.
- Implementing a "state of the art" rubber mixing facility in the United Kingdom and transferring production from external sources.
- Rationalisation of the work force to reduce the ongoing cost base in the United Kingdom.

6 Profit on disposal of fixed assets

During the year the following profits/(losses) on disposal of fixed assets arose:

	2000 £'000	1999 £'000
Profits arising on disposals	**784**	1,422
Losses arising on disposals	**(759)**	-
	25	1,422

The profits arising on disposal in each year arose from insurance proceeds received for the refurbishment or replacement of plant and machinery. The expenditure on the major refurbishment has been capitalised and the proceeds taken as an effective gain on disposal.

The gain of £784,000 (1999: £1,422,000) is before taking account of the related tax charge of £274,000 (1999: £498,000). The tax effect in respect of the losses arising on disposal is £141,000.

During the year the Group disposed of a subsidiary company (CQC Limited) and land and building from which that company operated. No gain or loss arose on disposal. Details are set out in note 30.

Notes to the financial statements continued

for the year ended 30 September 2000

7 Net interest receivable/(payable) and similar charges

	2000 £'000	1999 £'000
Bank loans and overdrafts	**(4,107)**	(2,276)
US dollar private placement	**(2,530)**	(2,347)
Other loans	**(434)**	(306)
Finance leases	**(63)**	(118)
	(7,134)	(5,047)
Share of interest cost in joint venture	**(71)**	(64)
Less interest capitalised	**1,294**	579
Total interest payable	**(5,911)**	(4,532)
Interest receivable	**2,871**	3,136
	(3,040)	(1,396)

8 Profit on ordinary activities before taxation

	2000 £'000	1999 £'000
Profit on ordinary activities before taxation is stated after crediting:		
Rent receivable	**54**	42
Gain on foreign exchange	**76**	40
and after charging:		
Depreciation for the year on tangible fixed assets:		
owned assets	**11,268**	8,901
leased assets	**643**	833
Amortisation of goodwill	**623**	163
Auditors' remuneration for:		
audit (Company £72,000; 1999 £50,000)	**324**	293
other services to UK members of the Group including taxation	**89**	165
Research and development	**3,793**	4,645
Operating leases:		
plant and machinery	**2,015**	2,082
other assets	**1,464**	1,617

9 Taxation

	2000 £'000	1999 £'000
The taxation charge, based on the results for the year, comprises:		
Tax charge on operating activities:		
United Kingdom corporation tax at 30% (1999: 30.5%)	**(375)**	546
Overseas taxes	**3,719**	3,651
Joint venture	**–**	-
Associated company	**52**	14
	3,396	4,211
Deferred taxation	**(436)**	2,046
	2,960	6,257

The relatively high corporation tax charge largely arises as a result of unrecognised UK tax losses carried forward. Lower taxation charges on overseas profits are largely due to capital allowances arising on capital expenditure.

Notes to the financial statements continued

for the year ended 30 September 2000

9 Taxation (continued)

An analysis of provided and unprovided deferred tax at 30% (1999: 30%) is shown below:

	Amount provided		Amount unprovided	
	2000 £'000	1999 £'000	**2000 £'000**	1999 £'000
Capital allowances	**(2,092)**	(2,162)	**(6,119)**	(4,845)
Pension deferral	**-**	-	**342**	(748)
Post retirement healthcare	**1,124**	941	**-**	-
Other timing differences	**74**	(47)	**2,208**	2,876
Losses	**-**	-	**2,060**	(217)
Taxation liability	**(894)**	(1,268)	**(1,509)**	(2,934)

In addition to the above there are losses of £667,000 (1999: £233,000) (in terms of tax) available for carry forward, which can be offset against future profits from the same activity.

No provision has been made for taxation liabilities which would arise on the distribution of profits returned by overseas subsidiaries because there is no intention that such profits will be remitted in the foreseeable future.

10 Dividends

	2000 £'000	1999 £'000
Dividends on equity shares:		
Ordinary - Interim paid of 7.0p per share (1999: 7.0p per share)	**1,938**	1,936
Ordinary - Final proposed of 17.2p per share (1999: 17.2p per share)	**4,762**	4,762
	6,700	6,698
Dividends on non-equity shares:		
Preference 7% paid (1999:7%)	**35**	35
	6,735	6,733

11 Earnings per share

Basic earnings per share amount to 12.4p (1999: 56.8p) and are based on profit after taxation, and deduction of minority interests, and non-equity dividends, of £3,460,000 (1999: £15,747,000) and 27,824,000 ordinary shares (1999: 27,721,000) being the weighted average of the shares in issue during the year.

Earnings per share before exceptional items amount to 31.3p (1999: 53.5p) and are based on profit after taxation, and deduction of minority interests, and non-equity dividends, of £8,707,000 (1999: £14,823,000).

Earnings per share before goodwill amortisation and exceptional items amount to 33.5p (1999: 54.1p) and are based on profit after taxation, and deduction of minority interests, and non-equity dividends of £9,330,000 (1999: £14,986,000).

There is no difference between the weighted average number of shares in issue and the diluted weighted average number of shares in issue.

Notes to the financial statements continued

for the year ended 30 September 2000

11 Earnings per share (continued)

Adjusted earnings per share figures have been calculated in addition to basic and diluted figures since, in the opinion of the directors, these provide a better understanding of the Group's performance. A reconciliation of the different earnings per share is shown below.

	2000 £'000	1999 £'000
Basic earnings per share	**12.4p**	56.8p
Adjustment for exceptional items	**18.9p**	(3.3p)
Earnings per share before exceptional items	**31.3p**	53.5p
Adjustment for goodwill amortisation	**2.2p**	0.6p
Earnings per share before goodwill amortisation and exceptional items	**33.5p**	54.1p

12 Pensions and other retirement benefits

Pensions

The Group operates a contributory defined benefits plan to provide pension and death benefits for the employees of Avon Rubber p.l.c. and its Group undertakings in the UK. The assets of the plan are held in separate trustee administered funds and are invested by professional investment managers. The trustee is Avon Rubber Pension Trust Limited, the directors of which are members of the plan. Four of the directors are appointed by the Company and two are elected by the members.

Pension costs are assessed on the advice of an independent consulting actuary using the projected unit method. The funding of the plan is based on regular actuarial valuations. The most recent actuarial valuation of the plan was carried out as at 31 March 1997 when the market value of the plan's assets was £236.2 million. The actuarial value of those assets represented 106% of the value of the benefits which had accrued to members, after allowing for future increases in salaries.

The pension cost for the year ended 30 September 2000 is based on the actuarial valuation as at 31 March 1997 which took into consideration the changes announced in the March 1997 budget. The principal actuarial assumptions used are that the annual rate of return on investments would be 2.5% (1999: 2.5%) higher than the annual increase in pensionable remuneration and 4% (1999: 4%) higher than the annual increase in present and future pensions in payment. The pension cost to the Group in the year ended 30 September 2000 in respect of UK employees was £629,000 (1999: £1,269,000) after taking into account a surplus of £479,000 arising on the disposal of CQC Ltd (see note 30). At 30 September 2000, the pension prepayment held in the Group balance sheet is £4,596,000 (1999: £3,005,000).

Following the rationalisation and reorganisation of activities in the United Kingdom, a surplus of £720,000 has arisen as a result of the reduction in the work force. The benefits of this surplus will be recognised in the profit and loss account as the Group benefits from reduced pension contributions.

For employees overseas, pension arrangements are principally defined contribution plans. The cost to the Group in the year ended 30 September 2000 in respect of overseas employees was £2,097,000 (1999: £2,115,000).

Other post retirement benefits

Cadillac Rubber and Plastics Inc. operates a medical cover scheme under the terms of which retiring employees who have ten years service and their dependants are entitled to medical cover from the date of their retirement for a period of three years, or until they reach the age of 65, whichever is the earlier. The amount charged to the Group profit and loss account in the year ended 30 September 2000 is £189,000 (1999: £82,000), and the accrued liability of £3,212,000 (1999: £2,691,000) is included in provisions for liabilities and charges (see note 25).

Notes to the financial statements continued

for the year ended 30 September 2000

13 Directors and employees

Detailed disclosures of directors' remuneration and share options are given on pages 22 to 24.

	2000 £'000	1999 £'000
Staff costs (including directors) during the year were:		
Wages and salaries	**87,106**	79,396
Social security costs	**9,427**	8,227
Other pension costs	**3,117**	3,675
	99,650	91,298

14 Intangible fixed assets – Group

	Cost £'000	Amortisation £'000	Net book value £'000
Goodwill			
At 3 October 1999	12,950	(162)	12,788
Amortisation	–	(623)	(623)
Exchange differences	(990)	38	(952)
At 30 September 2000	**11,960**	**(747)**	**11,213**
Development expenditure			
At 3 October 1999	–	–	–
Prior year adjustment	550	–	550
At 3 October 1999 as restated	550	–	550
Incurred during the year	1,391	–	1,391
At 30 September 2000	**1,941**	**–**	**1,941**
At 30 September 2000	**13,901**	**(747)**	**13,154**
At 2 October 1999 (restated)	13,500	(162)	13,338

The goodwill arising on acquisitions since October 1999 is being amortised on a straight line basis over 20 years.

This period is the period over which the directors estimate the value of the business acquired is expected to exceed the value of the underlying assets.

The cumulative goodwill resulting from acquisitions, which has been written off to reserves at 30 September 2000, is £77,867,000 (1999: £79,204,000).

15 Tangible fixed assets – Group

	Freeholds £'000	Long leasehold £'000	Short leasehold £'000	Plant and machinery £'000	Assets in course of construction £'000	Total £'000
Cost or valuation:						
At 3 October 1999	17,180	1,310	133	127,835	22,190	168,648
Exchange differences	870	44	7	3,376	–	4,297
Reclassifications	20,991	–	–	1,199	(22,190)	–
Additions at cost	8,549	–	–	13,560	–	22,109
Disposals	(213)	–	–	(4,000)	–	(4,213)
Disposal of subsidiary	(400)	–	–	(1,183)	–	(1,583)
At 30 September 2000	**46,977**	**1,354**	**140**	**140,787**	**–**	**189,258**
At Cost	37,185	554	140	140,787	–	178,666
At Valuation	9,792	800	–	–	–	10,592
	46,977	1,354	140	140,787	–	189,258
Depreciation:						
At 3 October 1999	1,544	130	82	64,790	–	66,546
Exchange differences	297	9	6	1,390	–	1,702
Reclassifications	(33)	–	–	33	–	–
Charge for the year	977	62	6	10,866	–	11,911
On disposals	(48)	–	–	(2,497)	–	(2,545)
Disposal of subsidiary	(31)	–	–	(1,012)	–	(1,043)
At 30 September 2000	**2,706**	**201**	**94**	**73,570**	**–**	**76,571**
Net book value at 30 September 2000	**44,271**	**1,153**	**46**	**67,217**	**–**	**112,687**
Net book value at 2 October 1999	15,636	1,180	51	63,045	22,190	102,102
Net book value includes the following leased assets:						
At 30 September 2000	**–**	**1,153**	**46**	**1,537**	**–**	**2,736**
At 3 October 1999	–	1,180	51	2,502	–	3,733

Additions at cost include £1,294,000 (1999: £579,000) of interest costs capitalised (see note 7). The accumulated cost of freeholds includes £1,873,000 (1999: £579,000) in respect of capitalised interest.

Group properties were valued independently as at 28 September 1996 on the basis of existing use value or open market value as deemed appropriate. These valuations were undertaken in the United Kingdom by Knight Frank and overseas by DTZ Debenham Thorpe, both firms of independent Chartered Surveyors. If land and buildings had not been revalued, they would have been included in the financial statements at the following amounts:

	Freeholds £'000	Long leaseholds £'000	Short leaseholds £'000
Cost	48,749	881	140
Depreciation	6,269	295	94
Net book value at 30 September 2000	**42,480**	**586**	**46**
Net book value at 2 October 1999	14,004	589	51

Notes to the financial statements continued

for the year ended 30 September 2000

16 Tangible fixed assets – Parent

	Freeholds £'000	Long leasehold £'000	Plant and machinery £'000	Assets in course of construction £'000	Total £'000
Cost or valuation:					
At 3 October 1999	842	800	2,450	19,218	23,310
Transfers to Group companies	–	–	(44)	(19,218)	(19,262)
Additions at cost	–	–	130	–	130
Disposals	(78)	–	–	–	(78)
Disposal of subsidiary	(400)	–	–	–	(400)
At 30 September 2000	**364**	**800**	**2,536**	–	**3,700**
At Cost	–	–	2,536	–	2,536
At Valuation	364	800	–	–	1,164
	364	**800**	**2,536**	–	**3,700**
Depreciation:					
At 3 October 1999	237	72	1,327	–	1,636
Transfers to Group companies	–	–	(1)	–	(1)
Charge for the year	12	24	282	–	318
On disposals	(8)	–	–	–	(8)
Disposal of subsidiary	(31)	–	–	–	(31)
At 30 September 2000	**210**	**96**	**1,608**	–	**1,914**
Net book value at 30 September 2000	**154**	**704**	**928**	–	**1,786**
Net book value at 2 October 1999	605	728	1,123	19,218	21,674
Net book value includes the following leased assets:					
At 30 September 2000	–	**704**	–	–	**704**
At 3 October 1999	–	728	–	–	728

Group properties were valued independently as at 28 September 1996 on the basis of existing use value or open market value as deemed appropriate. These valuations were undertaken in the United Kingdom by Knight Frank and overseas by DTZ Debenham Thorpe, both firms of independent chartered surveyors.

If land and buildings had not been revalued, they would have been included in the financial statements at the following amounts:

	Freeholds £'000	Long leasehold £'000
Cost	324	327
Depreciation	64	190
Net book value at 30 September 2000	**260**	**137**
Net book value at 2 October 1999	674	149

17 Fixed assets investments– Group

	2000 £'000	1999 £'000
Investments in joint ventures:		
shares of joint assets	**798**	713
shares of joint liabilities	**(828)**	(695)
Investments in associates	**743**	580
Other investments	**338**	302
	1,051	900

	Joint venture £'000	Associated company £'000	Other investments other than loans £'000	Total £'000
Unlisted shares at cost, less amount written off:				
At 3 October 1999	384	163	302	849
Exchange differences	–	20	36	56
At 30 September 2000	**384**	**183**	**338**	**905**
Group share of profits less losses:				
At 3 October 1999	(366)	417	–	51
Exchange differences	2	55	–	57
For the year	(50)	88	–	38
At 30 September 2000	**(414)**	**560**	**–**	**146**
Net book value at 30 September 2000	**(30)**	**743**	**338**	**1,051**
Net book value at 2 October 1999	18	580	302	900

18 Fixed assets investments – Parent

	Unlisted shares at cost less amounts written off £'000	Loan to Group Undertaking £'000	Total £'000
At 3 October 1999	82,585	7,852	90,437
Repayment of loan	–	(8,150)	(8,150)
Exchange rate movement	–	298	298
Net book value at 30 September 2000	**82,585**	**–**	**82,585**

A list of Group undertakings appears on page 56.

19 Other financial commitments

	Group		Parent	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Capital expenditure committed	**982**	4,586	–	–

Capital expenditure committed represents the amount contracted at the end of the financial year for which no provision has been made in the financial statements.

The annual commitments of the Group for non-cancellable operating leases are:

	2000		1999	
	Land and buildings £'000	Other assets £'000	Land and buildings £'000	Other assets £'000
For leases expiring				
Within 1 year	**226**	**107**	–	167
In 2–5 years	**327**	**126**	682	425
Over 5 years	**479**	–	503	23
	1,032	**233**	1,185	615

The majority of leases of land and buildings are subject to rent reviews.

The parent company has annual commitments for non-cancellable operating leases on land and buildings expiring in over 5 years of £68,000 (1999: £68,000).

20 Stocks

	Group	
	2000 £'000	1999 £'000
Raw materials	**8,041**	7,999
Work in progress	**7,102**	6,483
Finished goods	**11,693**	9,532
	26,836	24,014

21 Debtors

	Group 2000 £'000	Group 1999 £'000	Parent 2000 £'000	Parent 1999 £'000
Amounts falling due within one year:				
Trade debtors	**46,539**	45,113	**20**	143
Group undertakings	**–**	–	**7,927**	7,544
Undertakings in which the Group has a participating interest	**281**	192	**175**	146
Advance corporation tax recoverable	**1,938**	1,700	**–**	–
Corporation tax	**–**	2,050	**1,571**	1,507
Other debtors	**7,113**	7,148	**543**	758
Prepayments	**657**	826	**18**	17
	56,528	57,029	**10,254**	10,115
Amounts falling due after more than one year:				
Deferred tax	**1,124**	941	**–**	–
Other debtors	**2,426**	1,826	**–**	–
Pension fund prepayment	**4,596**	3,005	**337**	206
	8,146	5,772	**337**	206
	64,674	62,801	**10,591**	10,321

22 Creditors – amounts falling due within one year

	Group 2000 £'000	Group 1999 £'000	Parent 2000 £'000	Parent 1999 £'000
Current instalments due on loans	**7,423**	6,828	**3,910**	985
Bank overdrafts	**10,109**	2,401	**5,000**	–
Finance leases	**555**	689	**–**	–
Total borrowings falling due within 1 year	**18,087**	9,918	**8,910**	985
Trade creditors	**25,649**	27,476	**204**	146
Group undertakings	**–**	–	**21,351**	38,597
Bills of exchange	**2,188**	1,521	**–**	–
Corporation tax	**2,091**	5,001	**808**	462
Other taxation and social security	**3,194**	3,394	**147**	87
Other creditors	**5,885**	5,051	**34**	217
Accruals	**9,926**	10,092	**423**	410
Proposed dividend on ordinary shares	**4,762**	4,762	**4,762**	4,762
	71,782	67,215	**36,639**	45,666

23 Creditors – amounts falling due after more than one year

	Group		Parent	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Bank loans (secured £142,000; 1999: £127,000)	**14,075**	17,125	–	–
US dollar private placement	**40,097**	35,754	–	–
Finance leases up to 5 years	**271**	901	–	–
Finance leases over 5 years	–	4	–	–
Total borrowings falling due after more than one year	**54,443**	53,784	–	–
Other creditors	**1,673**	1,331	–	–
Deferred tax	–	–	–	–
	56,116	55,115	–	–

Bank loans and overdrafts are denominated in a number of currencies and bear interest based on either bank base rates or national LIBOR equivalents.

Bank loans are secured by way of fixed charges over land and buildings.

The US dollar denominated private placement loan of $60 million (1999: $60 million) is stated net of unamortised issue costs of £485,000 (1999: £487,000).

Included within bank loans and the US dollar private placements are amounts payable after more than five years (see note 24).

24 Financial instruments

Treasury Policy

Details of the role that financial instruments have had during the period in creating or changing the risks the Group faces in its activities are discussed in the financial review on page 14. The financial review also discusses the objectives and policies for holding or issuing financial instruments and the strategies for achieving those objectives.

Short term debtors and creditors

Short term debtors and creditors have been excluded from the following disclosures, other than the currency risk disclosures.

Interest rate risk of financial assets

	2000			1999		
Currency	Cash at bank and in hand £'000	Investments £'000	Total £'000	Cash at bank and in hand £'000	Investments £'000	Total £'000
Sterling	**213**	–	**213**	9,644	–	9,644
US dollars	**4,074**	**338**	**4,412**	6,082	302	6,384
EU currencies (other than sterling)	**2,669**	–	**2,669**	1,139	–	1,139
Other currencies	**629**	–	**629**	471	–	471
	7,585	**338**	**7,923**	17,336	302	17,638

Cash at bank and in hand balances are denominated in a number of currencies and earn interest based on national base rates.

The US dollar investment relates to a 10% equity holding in Longbore Inc. of $500,000 (1999: $500,000).

Notes to the financial statements continued

for the year ended 30 September 2000

24 Financial instruments (continued)

Interest rate risk of financial liabilities

Currency	2000 Floating rate financial liabilities £'000	2000 Fixed rate financial liabilities £'000	2000 Total £'000	1999 Floating rate financial liabilities £'000	1999 Fixed rate financial liabilities £'000	1999 Total £'000
Sterling						
Financial liabilities	9,682	697	10,379	-	1,229	1,229
Preference shares	–	500	500	–	500	500
US dollars	143	40,097	40,240	2,409	35,812	38,221
EU currencies (other than sterling)	21,094	129	21,223	23,208	365	23,573
Other currencies	688	-	688	679	–	679
	31,607	41,423	73,030	26,296	37,906	64,202

Floating rate financial liabilities comprise bank overdrafts and loans, which bear interest at rates related to either bank base rates or national LIBOR equivalents and, which are fixed in advance for periods of between one and six months.

Fixed rate financial liabilities comprise finance leases, preference shares, and a dollar denominated loan of $60 million which provides a hedge against the Group's investment in dollar denominated net assets.

Fixed rate financial liabilities

Currency	2000 Weighted average interest rate %	2000 Weighted average period for which rate is fixed Years	1999 Weighted average interest rate %	1999 Weighted average period for which rate is fixed Years
Sterling				
Financial liabilities	7.1	1.7	7.2	2.5
Preference shares	7.0	-	7.0	-
US dollars	6.7	7.9	6.7	8.9
EU currencies (other than sterling)	5.3	0.2	4.7	0.9

Maturity of financial liabilities

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

	2000 Bank overdrafts and loans £'000	2000 Finance leases £'000	2000 Preference shares £'000	2000 Total £'000	1999 Bank overdrafts and loans £'000	1999 Finance leases £'000	1999 Preference shares £'000	1999 Total £'000
In 1 year or less, or on demand	17,532	555	–	18,087	9,229	689	-	9,918
Between 1 and 2 years	8,605	239	–	8,844	2,259	422	-	2,681
Between 2 and 5 years	27,994	32	–	28,026	29,067	479	-	29,546
Over 5 years	17,573	-	500	18,073	21,553	4	500	22,057
	71,704	826	500	73,030	62,108	1,594	500	64,202

The cumulative preference shares have a fixed cumulative dividend of 7.0% and are not redeemable.

24 Financial instruments (continued)

Borrowing facilities

The Group has the following undrawn committed borrowing facilities which have been arranged to meet its expected medium term requirements:

	2000			1999
	Floating rate £'000	Fixed rate £'000	Total £'000	Total £'000
Expiring within 1 year	**11,558**	**–**	**11,558**	18,178
Between 1 and 2 years	**22,101**	**–**	**22,101**	-
Over 2 years	**2,013**	**–**	**2,013**	20,253
	35,672	**–**	**35,672**	38,431
Bank loans and overdrafts	**31,607**	**40,097**	**71,704**	62,108
Total Group facilities	**67,279**	**40,097**	**107,376**	100,539

The undrawn facilities are available at floating rates of interest. These facilities are subject to formal agreement with the providers of finance. The majority of the facilities which expire in more than one year are subject to annual review in line with normal banking procedures.

Fair values of financial assets and liabilities

The following table provides a comparison by category of the carrying amounts and the fair values of the Group's financial assets and liabilities. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates. Set out on the next page is a summary of the methods and assumptions used for each category of financial instrument.

	2000		1999	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Primary financial instruments held or issued to finance the Group's operations:				
Bank loans and overdrafts under 1 year	**17,532**	**17,532**	9,229	9,229
US dollar denominated loan	**40,582**	**38,251**	36,241	33,136
Bank loans over 1 year	**14,075**	**14,075**	17,125	17,125
Finance leases	**826**	**826**	1,594	1,594
Preference shares	**500**	**505**	500	485
Cash at bank and in hand	**7,585**	**7,585**	17,336	17,336
Derivative financial instruments held to manage the interest rate and currency profile				
Currency swap	**–**	**–**	–	298
Forward foreign currency contracts	**(41)**	**(41)**	71	71
Derivative financial instruments held or issued to hedge the currency exposure on expected future sales and purchases				
Forward foreign currency contracts	**-**	**(276)**	-	97

The book value of the US dollar denominated loan is shown in the above table gross of unamortised issue costs of £485,000 (1999: £487,000).

Notes to the financial statements continued

for the year ended 30 September 2000

24 Financial instruments (continued)

Summary of methods and assumptions

Currency swap	The fair value reflects the net amount receivable at year-end exchange rates.
US dollar denominated loan and forward foreign currency contracts	Fair value is based on the market value of comparable instruments at the balance sheet date.
Bank loans	The fair value of bank loans approximates to their book values as these are floating rate facilities on which interest rates are reset to market rates typically on a one to six months basis.
Finance leases	The fair value of finance leases approximates to their book values as the interest rates inherent in these agreements are similar to the interest rates available on replacement facilities.

A fair value has not been disclosed for the Group's investments in Longbore Inc. on the grounds that an estimated fair value cannot be determined with sufficient reliability because this is an unquoted investment. This investment represents a 10% equity holding carried at cost $500,000 (1999: $500,000).

Currency exposures

The carrying value of monetary assets and liabilities held by operating units in currencies other than their functional currency, which are not covered by forward exchange contracts, is not material.

Hedges

In order to protect against the fluctuations in foreign currencies, borrowings are taken out in the functional currency of the subsidiary companies. The currency exposure as at 30 September 2000 in respect of overseas investments was as follows:

Currency	Operating assets £'000	Unamortised goodwill £'000	Functional currency borrowings £'000	Remaining functional currency exposure £'000
US dollar	55,511	-	40,240	15,271
EU currencies (excluding sterling)	14,210	11,213	20,312	5,111
Other currencies	5,208	-	688	4,520
	74,929	11,213	61,240	24,902

At the end of the year, the Group had a FF10,000,000 loan, taken out as a hedge against its investments in France. Any currency gains or losses resulting from this loan are taken to the Statement of Total Recognised Gains and Losses and offset against gains or losses on retranslation of the net investments in the French subsidiaries.

The unrecognised gains on forward foreign currency contracts at 2 October 1999 amounted to £97,000 which was recognised in the profit and loss account for the year ended 30 September 2000. The unrecognised losses on forward foreign currency contracts at 30 September 2000 amount to £276,000 which is expected to be recognised in the profit and loss account for the year ended 29 September 2001.

25 Provision for liabilities and charges – Group

	Deferred tax £'000	Post retirement benefits £'000	Other £'000	Total £'000
Balance at 3 October 1999	2,209	2,691	1,376	6,276
Charged/(credited) to profit and loss account	(192)	189	6,672	6,669
Payments in the year	–	–	(4,886)	(4,886)
Exchange differences	–	332	(6)	326
Balance at 30 September 2000	**2,017**	**3,212**	**3,156**	**8,385**

The provision for post retirement benefits is detailed in note 12.

The other provision is in respect of the rationalisation and reorganisation programme set out in note 5 and the costs arising on the relocation of the UK Technical Products and Automotive Components businesses to the newly completed Hampton Park West facility.

26 Contingent liabilities

	Group		Parent	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Guarantees of overdraft facilities and loans of Group undertakings	–	–	**58,693**	59,409
Other guarantees	**726**	427	–	–
	726	427	**58,693**	59,409

The company and certain subsidiaries have unconditionally guaranteed the liabilities of Avon Rubber & Plastics Inc. in respect of its US$60 million private debt placement and Industrial Flexo S.A. in respect of its 23 million euro loan.

The bank has the right to set off the bank account of the Parent and the UK subsidiaries.

Other guarantees are bank guarantees issued to cover normal trading requirements.

27 Share capital

	2000 £'000	1999 £'000
Authorised:		
37,900,000 ordinary shares of £1 each	**37,900**	37,900
500,000 7.0% cumulative preference shares of £1 each	**500**	500
	38,400	38,400
Called up, allotted and fully paid:		
27,824,000 ordinary shares of £1 each	**27,824**	27,824
500,000 7.0% cumulative preference shares of £1 each	**500**	500
	28,324	28,324

Notes to the financial statements continued

for the year ended 30 September 2000

27 Share capital (continued)

At 30 September 2000, a Qualifying Employee Share Ownership Trust ("QUEST"), held 136,578 ordinary shares in the company at a market value of £2.22 per share, all of which were under option to employees. Dividends on the shares held by QUEST have been waived.

The cumulative preference shares have a fixed cumulative dividend of 7.0% and are not redeemable. In the event of a winding up of the company they rank ahead of the ordinary shares and will be entitled to the amounts paid up thereon, any arrears of dividend and a premium equivalent to the difference between the nominal amount of capital paid up on such shares and the average quoted price for such shares for the preceding six months (net of any dividend arrears). Except under certain circumstances the shares carry no right to vote at general meetings.

Details of outstanding share options are given on pages 23 and 24.

28 Share premium account and reserves – Group

	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000
At 3 October 1999	34,070	2,723	24,440
Transfer from revaluation reserve to profit and loss account	-	(148)	148
Goodwill resurrected on disposal of subsidiary	-	-	1,337
Unrealised exchange differences			
on overseas investments	-	-	384
on related borrowings	-	-	(75)
Current year loss	-	-	(3,240)
At 30 September 2000	**34,070**	**2,575**	**22,994**
Avon Rubber p.l.c. and subsidiaries	34,070	2,575	22,848
Joint ventures and associated companies	-	-	146
	34,070	**2,575**	**22,994**

Notes to the financial statements continued

for the year ended 30 September 2000

29 Share premium account and reserves – Parent

	Share premium account £'000	Merger reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
At 3 October 1999	34,070	16,439	709	29,814
Transfer from revaluation reserve to profit and loss account	-	-	(148)	148
Unrealised exchange differences	-	-	-	21
Current year loss	-	-	-	(3,835)
At 30 September 2000	**34,070**	**16,439**	**561**	**26,148**

30 Sale of subsidiary undertaking

On 15 October 1999 the company completed the sale of CQC Ltd (formerly known as CQC PLC) to a new company Crossco (430) Ltd. The result on disposal comprises:

	£'000
Consideration:	
On sale of shares	1,600
On sale of land	1,010
	2,610
Pension surplus	479
Carrying cost of net assets	(1,607)
Goodwill previously written off to reserves	(1,337)
Costs incurred	(145)
Result on sale of subsidiary undertaking	-

Notes to the financial statements continued

for the year ended 30 September 2000

31 Net cash inflow from operating activities

	2000 £'000	1999 £'000
Operating profit	**8,753**	21,880
Goodwill amortisation	**623**	163
Amortisation of loan issue costs	**59**	50
Depreciation of tangible fixed assets	**11,911**	9,734
Loss/(profit) on sale of tangible fixed assets	**742**	(707)
Increase in stocks	**(3,375)**	(1,154)
Increase in debtors	**(5,049)**	(784)
Increase/(decrease) in creditors	**2,796**	(4,718)
Increase in pension prepayment	**(1,112)**	(1,054)
Share of operating (profits)/losses of joint ventures and associates	**(162)**	54
Increase/(decrease) in provisions	**2,301**	(1,195)
Effect of foreign exchange rate changes	**833**	(43)
Net cash inflow from operating activities	**18,320**	22,226

32 Reconciliation of net cash flow to movement in net debt

	2000 £'000	1999 £'000
(Decrease)/increase in cash	**(18,109)**	10,602
Movements in loans and finance leases	**1,805**	(13,760)
Movement in liquid resources	**–**	(36,800)
Amortisation of loan costs	**(59)**	(50)
Loans and finance leases acquired from acquisitions	**–**	(3,457)
Finance leases transferred on sale of subsidiary	**5**	-
Exchange differences	**(2,221)**	(429)
Movement in net debt in the period	**(18,579)**	(43,894)
Net debt at the beginning of the year	**(46,366)**	(2,472)
Net debt at the end of the year	**(64,945)**	(46,366)

Notes to the financial statements continued

for the year ended 30 September 2000

33 Analysis of net debt

	At 3 Oct 1999 £'000	Cash flow £'000	Exchange movements £'000	Disposal of subsidiary £'000	**At 30 Sept 2000 £'000**
Cash in bank and in hand	17,336	(10,101)	416	(66)	**7,585**
Overdrafts	(2,401)	(7,942)	234	-	**(10,109)**
Debt due after 1 year	(52,879)	1,760	(3,053)	-	**(54,172)**
Debt due within 1 year	(6,828)	(758)	163	-	**(7,423)**
Finance leases	(1,594)	744	19	5	**(826)**
	(46,366)	(16,297)	(2,221)	(61)	**(64,945)**

34 Related party transactions

At the end of the year the Group had loans outstanding due from Gold Seal-Avon Polymers PVT totalling £232,000 (1999: £183,000). There were no other material related party transactions during the year.

Group undertakings and participating interests

at 30 September 2000

	Group interest	Country in which incorporated
Held by parent company		
Avon Polymer Products Limited		
Avon Rubber Overseas Limited		
Avon Rubber Pension Trust Limited		
Held by group undertakings		
Avon Automotive Deutschland GmbH		Germany
Avon Caoutchouc S.A.		France
Avon Hi-Life Inc.		USA
Avon Injected Rubber and Plastics Inc.		USA
Avon Milk-Rite Inc.		USA
Avon Polymères France S.A.		France
Avon Rubber & Plastics Inc.		USA
Avon Rubber Holland BV		Netherlands
Avon Rubber Polimeros L.D.A.		Portugal
Avon Automotive a.s.*		Czech Republic
Avon Spencer Moulton S.A.		France
Avon Vibration Management Systems Limited		
Avon Zatec LLC.		USA
Avon-Ames Limited	51%	
Bell Avon Inc.	80%	USA
Cadillac Rubber and Plastics Inc.		USA
Cadillac Rubber and Plastics de Mexico SA de CV*		Mexico
Cadimex SA de CV*		Mexico
Cow Polymers Limited		
CT Rubber and Plastics Inc.	60%	USA
Industrial Flexo S.A.		Spain
Nova Insurance Limited		Guernsey
Pacer Tool and Plastics Inc.		USA
Proflex S.A.		Spain
Undertakings in which the Group has a participating interest		
Ames-Avon Industries*†	49%	USA
Gold Seal-Avon Polymers PVT*†	50%	India
Longbore Inc.	10%	USA

Shareholdings are ordinary shares and, except where shown, undertakings are wholly owned.

Except where otherwise shown, all companies are incorporated in England and Wales and operate primarily in their country of incorporation.

Except where indicated by * all companies have a year ending in September. Companies marked by * all have December year ends, except Gold Seal-Avon Polymers PVT which has a March year end.

Avon Rubber Pension Trust Limited, Nova Insurance Limited and Longbore Inc. are, respectively, a pension fund trustee, an insurer and a pollution remediation contractor. Avon Rubber Overseas Limited, Avon Caoutchouc S.A., Avon Rubber Holland BV and Avon Rubber & Plastics Inc. are investment holding companies. The activities of all of the other companies listed above are the manufacture and/or distribution of rubber and other polymer-based products.

The 80% shown against Bell Avon Inc. represents the Group's interest in the share capital of that company. The Group's interest in the accumulated reserves of Bell Avon Inc. is 50%.

A number of non-trading and small Group undertakings have been omitted on the grounds of immateriality.

† Ames-Avon Industries is an associated company and Gold Seal-Avon Polymers PVT a joint venture within the meaning of Financial Reporting Standard Number 9.

Avon Rubber p.l.c
company number 32965

Five year record

	2000 £'000	1999 (restated) £'000	1998 £'000	1997 £'000	1996 £'000
Turnover	**277,997**	266,164	267,085	290,648	347,471
Profit on trading	**27,798**	31,831	31,196	30,471	38,250
Share of profits/(losses) of joint venture and associated company	**161**	(54)	26	80	184
	27,959	31,777	31,222	30,551	38,434
Goodwill amortisation	**(623)**	(163)	-	-	-
Depreciation	**(11,911)**	(9,734)	(8,871)	(10,713)	(13,330)
Operating profit before exceptional items	**15,425**	21,880	22,351	19,838	25,104
Reorganisation costs	**(6,672)**	-	-	(4,000)	-
Profit on sale of fixed assets and investments	**25**	1,422	718	-	-
Profit on sale of interest in subsidiary undertakings	**-**	-	-	11,047	-
Profit before interest	**8,778**	23,302	23,069	26,885	25,104
Interest	**(3,040)**	(1,396)	836	(526)	(3,595)
Profit before taxation	**5,738**	21,906	23,905	26,359	21,509
Taxation	**(2,960)**	(6,257)	(7,003)	(7,064)	(7,096)
Profit after taxation	**2,778**	15,649	16,902	19,295	14,413
Minority interests	**717**	133	254	(81)	(800)
Profit attributable to Avon shareholders	**3,495**	15,782	17,156	19,214	13,613
Preference dividends	**(35)**	(35)	(25)	(25)	(25)
Ordinary dividends	**(6,700)**	(6,698)	(6,273)	(5,775)	(5,248)
(Loss)/retained profit	**(3,240)**	9,049	10,858	13,414	8,340
Fixed assets and investments	**126,892**	116,340	68,409	58,523	93,391
Working capital	**36,142**	28,187	22,157	23,720	37,424
Provisions	**(8,385)**	(6,276)	(5,263)	(6,156)	(3,776)
Net funds	**-**	-	-	32,480	-
Assets employed	**154,649**	138,251	85,303	108,567	127,039
Financed by:					
Ordinary share capital	**27,824**	27,824	27,718	27,434	26,952
Reserves attributable to Avon shareholders	**59,639**	61,233	52,187	77,857	63,350
Preference share capital	**500**	500	500	500	500
Minority shareholders' interests	**1,741**	2,328	2,426	2,776	4,130
Shareholders' capital employed	**89,704**	91,885	82,831	108,567	94,932
Net borrowings	**64,945**	46,366	2,472	-	32,107
Capital employed	**154,649**	138,251	85,303	108,567	127,039
Basic earnings per share	**12.4p**	56.8p	62.4p	70.8p	50.6p
Dividends per share	**24.2p**	24.2p	22.8p	21.15p	19.5p

The above includes the results of both continuing and discontinued activities.

Notice of annual general meeting

Notice is hereby given that the annual general meeting of shareholders will be held at Melksham House, Market Place, Melksham, Wiltshire on Wednesday 17 January 2001 at 2.30pm for the purposes detailed below.

This notice is addressed to the holders of both the ordinary shares and the 7% Cumulative Preference Shares ("the Preference Shares") because the business to be transacted at this year's annual general meeting includes two items on which the holders of the Preference Shares are entitled to vote; namely Resolutions 8 and 9 (items 9 and 10 below).

Those items, which are explained below, will also require the consent of the holders of the Preference Shares at a special general meeting which has been convened to take place immediately on the conclusion of the annual general meeting. Only holders of the Preference Shares will be entitled to attend and vote at the separate general meeting, and notice of that meeting has been sent to them.

1. To receive a presentation by the Chief Executive on aspects of the Company's business.

2. To receive and consider the report of the directors and the financial statements for the year ended 30 September 2000 (Resolution No. 1).

3. To declare a dividend on the ordinary shares (Resolution No. 2).

4. To re-elect directors:

   Mr. T.C. Bonner retires by rotation and, being eligible, offers himself for re-election (Resolution No. 3).

   Mr. T.K.P. Stead retires by rotation and, being eligible, offers himself for re-election (Resolution No. 4).

5. To re-appoint PricewaterhouseCoopers as auditors and to authorise the directors to fix their remuneration (Resolution No. 5).

6. To transact any other routine business.

7. As special business to consider and if thought fit pass the following resolution which will be proposed as a Special Resolution (Resolution No. 6):
   "That the authority conferred on the Directors by Article 11(B) (i) of the Company's Articles of Association be renewed for the period ending on the date of the annual general meeting in 2002 or on 17 April 2002, whichever is the earlier, and for such period the Section 80 amount shall be £9,274,648."

8. As special business to consider and if thought fit pass the following resolution which will be proposed as a Special Resolution (Resolution No. 7):
   "That the power conferred on the directors by Article 11(B) (ii) of the Company's Articles of Association be renewed for the period ending on the date of the annual general meeting in 2002 or on 17 April 2002, whichever is the earlier, and for such period the Section 89 amount shall be £1,391,197."

9. As special business to consider and if thought fit pass the following resolution which will be proposed as a Special Resolution (Resolution No. 8):
   That the Articles of Association of the Company be amended by inserting the following as a new Article 8.(B):
   "8.(B) Subject to any statutory provisions and the terms of the 7.0 per cent (7%) Cumulative Preference Shares in issue, the Company can buy back in the future, any shares of any class (including redeemable shares) but so that if there shall be in issue any shares which are convertible into equity share capital of the Company of the class proposed to be purchased, then the Company shall not purchase, or enter into a contract under which it will or may purchase such equity shares of the relevant class unless either:

   (i) the terms of issue of such convertible shares include provisions permitting the Company to purchase its own equity shares or providing for adjustment to the conversions terms upon such a purchase; or

   (ii) the purchase, or the contract, has first been approved by an Extraordinary Resolution passed at a separate meeting of the holders of such convertible shares."

Notice of annual general meeting continued

10. As special business to consider and if thought fit pass the following resolution which will be proposed as a Special Resolution (Resolution No. 9):
"That subject to the passing of Resolution No. 8 and the passing at the relevant meeting or at any adjournment(s) thereof, of the Extraordinary Resolution to be proposed at a separate General Meeting of the holders of the 7 per cent (7%) Cumulative Preference Shares in the Company convened to take place immediately following the conclusion of the Annual General Meeting convened for 2.30pm on 17 January 2001 the Company be and is hereby unconditionally and generally authorised for the purpose of Section 166 of the Companies Act 1985 to make market purchases (as defined in Section 163 of the Act) of Ordinary Shares of £1 each in the capital of the company provided that:

(a) the maximum number of shares which may be purchased is 4,173,591

(b) the minimum price which may be paid for each share is £1

(c) the maximum price which may be paid for a share is an amount equal to 105 per cent (105%) of the average of the middle market quotations of the Company's Ordinary Shares as derived from the London Stock Exchange Daily Official List for the 5 (five) business days immediately preceding the day on which such share is contracted to purchased; and

(d) this authority shall expire at the conclusion of the Annual General Meeting of the Company held in 2002 or, if earlier on 17 July 2002 (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry) unless such authority is renewed prior to such time."

A member entitled to attend and vote is entitled to appoint a proxy (or proxies) to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

By order of the board
C.L. Martin, Secretary
Bradford on Avon
14 December 2000

A form of proxy is enclosed. The appointment of a proxy will not prevent an ordinary shareholder or a preference shareholder from subsequently attending and voting at the meeting in person.

To be effective, the instrument appointing a proxy, and any power of attorney or other authority under which it is executed (or a duly certified copy of any such power of authority) must be deposited at the Company's registrar, Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA, not less than 48 hours before the time for holding a meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting), for the taking of the poll at which it is to be used.

The documents set out below are available for inspection at the Company's registered office during business hours on any weekday (Saturday and public holidays excluded) from the date of this notice until the conclusion of the annual general meeting and will also be available for inspection at the place of the meeting from 15 minutes before it is held until its conclusion:

(i) the register of directors' interests showing any transaction of directors and their family interests in the share capital of the Company; and

(ii) copies of all contracts of service under which directors of the Company are employed by the company or any of its subsidiaries.

Notice of annual general meeting continued

Explanation of resolutions nos. 3 and 4

At the 1998 annual general meeting shareholders approved an amendment to the Company's Articles of Association designed to ensure that all directors, whether or not they hold executive office, should be subject to retirement by rotation. Additionally, the directors will comply with the requirements of the Combined Code that all directors should be subject to re-election at intervals of not more than three years.

This year Mr. T.C. Bonner and Mr. T.K.P. Stead will retire by rotation under Article 91 and stand for re-election (Resolutions Nos. 3 and 4).

Explanation of resolutions nos. 6 and 7

Article 11 of the Articles of Association of the Company both authorises your board to allot shares and disapplies shareholders' pre-emption rights, on an annual renewable basis. Shareholders may recall that this authority has previously been given for the maximum amounts permitted by the Investment Committees of the Association of British Insurers and the National Association of Pension Funds ("the Investment Committees").

The authorities referred to above were renewed at the annual general meeting in 2000 and will, unless again renewed by the shareholders, expire at the end of the forthcoming annual general meeting. The authority can be renewed by way of relatively simple special resolutions. It is therefore proposed as Resolution No. 6 to renew the authority to allot shares up to an aggregate nominal amount of £9,274,648 (the "section 80 amount"), being an amount equal to 33⅓% of the existing ordinary share capital, so that the directors are empowered pursuant to and within that authority to issue shares for cash, either in connection with a rights issue or to persons other than existing shareholders. It is additionally proposed as Resolution No. 7 to provide that the authority to issue shares for cash to persons other than existing shareholders will be limited to issues representing no more than £1,391,197 (the "section 89 amount") being 5% of the issued ordinary share capital as shown in the latest audited financial statements.

Since the issued ordinary share capital is the same as at the same time last year, the proposed section 80 amount and the proposed section 89 amount are the same as the amounts approved at the annual general meeting in 2000. In connection with the section 80 amount the Investment Committees require that the amount should be the lesser of the authorised but unissued share capital and an amount equal to 33⅓% of the existing issued ordinary share capital; this year 33⅓% of the existing issued ordinary share capital is the lesser amount and the section 80 amount had been calculated accordingly.

The authorities sought in Resolution Nos. 6 and 7 comply with the guidelines of the Investment Committees and will, unless subsequently renewed by shareholders, expire at the end of the annual general meeting to be held in 2002 or 17 April 2002 if earlier.

No issue of shares (apart from issues in respect of the exercise of options granted or to be granted to employees or directors under option schemes approved by shareholders, including the Avon Rubber p.l.c. Sharesave Option Scheme 1992 and the Avon Rubber p.l.c. Executive Share Option Scheme 1986), is currently contemplated and none will be made which will effectively alter the control of the Company without the prior approval of the Company in general meeting.

Explanation of resolution nos. 8 and 9

Resolutions Nos. 8 and 9 are both being proposed as Special Resolutions.

It is proposed, by way of Resolution No. 8, to give the Company the power to buy back its own shares. Whilst this proposed amendment to the Articles of Association would give the Company the relevant power, the Company will only be permitted to buy back its shares pursuant to that power if is additionally authorised to do so by a relevant Resolution of the Company; this authority is sought by way of Resolution No. 9.

Resolution No. 9 would grant the Company authority to make purchases on the London Stock Exchange of up to 4,173,591 ordinary shares of £1 each of the Company, subject to the limitations as to the minimum and maximum prices set out in the resolution, for a period up to the conclusion of the annual general meeting of the Company held in 2002 or, if earlier, 17 July 2002. The maximum number of ordinary shares for which authority to purchase is being sought represents nearly 15% (fifteen percent) of the Company's issued ordinary share capital.

Resolution No. 9 is conditional on the passing of the previous Resolution No. 8 and the passing of the appropriate Extraordinary Resolution at the separate general meeting of holders of the 7.0% (seven percent) Cumulative Preference Shares, on whom notice of this separate general meeting has been served.

The directors intend to exercise the power given by Resolution No. 9 only when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase the underlying value per share having regard to the intent of the guidelines of institutional investors and that such purchases are in the best interests of shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account before deciding upon this course of action. Any shares purchased in this way will be cancelled and the number of shares in issue will be reduced accordingly.

Bonus and incentive scheme targets for Executive Directors would not be affected by any enhancement of earnings per share following a share repurchase.

The directors intend to seek renewal of these powers at subsequent annual general meetings.