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# Financial highlights

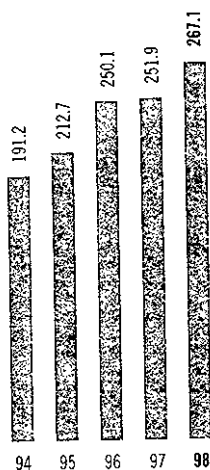
Continuing activities  
for the year ended 3 October 1998

	1998 £'000	1997 £'000
Turnover	£267,085	£251,948
Operating profit before exceptional items	£22,351	£19,393
Profit before taxation and exceptional items	£23,187	£19,319
Earnings per share before exceptional items	59.8p	47.3p
Dividend per share	22.80p	21.15p

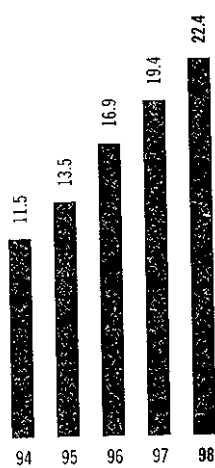
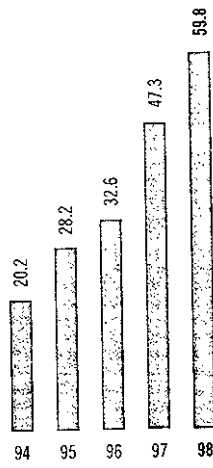
## Five year analysis

Continuing activities

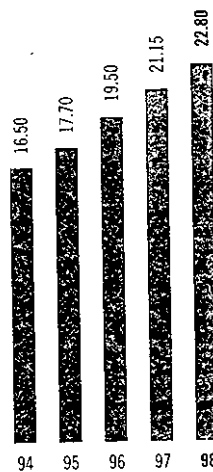
Turnover (£m)



Operating profit (£m)

Earnings per share (p)  
before exceptional items

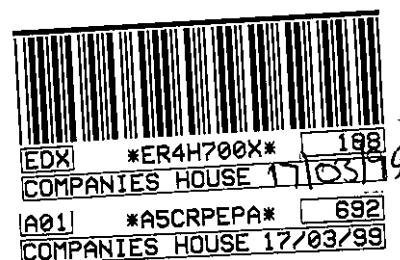
Dividend per share (p)



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**Our strategy, supported by determined implementation throughout the Group, has resulted in a year of further progress while laying the foundations for long term value creation.**

## Chairman's statement

I am pleased to report on a successful year, in which the strategy of investment in new product development and global plant capacity has been rewarded by our customers with new orders in the Automotive division. In the Technical Products division acquisitions have contributed well in the second half and provide an additional basis for earnings growth.

### RESULTS

In 1998, Group sales on continuing operations including acquisitions were £267.1 million (1997: £251.9 million) and the Group profit before taxation and exceptional items was £23.2 million (1997: £19.3 million), an increase of 20.2%.

There was an exceptional net gain of £0.7 million (1997: £7.0 million) due to a profit of £1.0 million, net of costs, from the sale in September 1998 of the Kingston Mill site in Bradford-on-Avon and a loss of £0.3 million arising on the disposal in July 1998 of the Group's remaining 10% shareholding in Avon Marine Limited.

Sales would have been £4.7 million higher but for currency translation effects. Nevertheless, earnings per share on continuing activities before exceptional items improved by 26.4% to 59.8p.

Cash flow from operations of £8.2 million was achieved after capital investment of £14.0 million. The cash cost of acquisitions during the year was £44.3 million of which £33.8 million was spent in the United States.

Net debt at the year end stood at £2.5 million compared with opening net funds of £32.5 million.

As part of the funding for operations including acquisitions in North America, a private placement for US\$60.0 million was arranged for ten years at a fixed coupon of 6.52% per annum.

### DIVIDEND

Shareholders are recommended to approve a final dividend of 16.20p per share which will be paid as a foreign income dividend on 29 January 1999 to ordinary shareholders on the register on 29 December 1998. When added to the interim dividend of 6.60p per share, the total dividend of 22.80p shows an increase of 7.8% on the 1997 dividend of 21.15p.

An explanation of the reasons for paying a foreign income dividend and its effects on shareholders is given on page 63.

### DIRECTORS

Hamish McPhie, who was Group Finance Director until 5 October 1998, is to retire in April 1999. Hamish joined the company on 1 October 1995 and has played a significant role in the development of the Group since that time. I would like to take this opportunity to record the appreciation of the board for his contribution and to wish him a happy retirement.

Terry Stead, who joined the company in September 1998, was appointed Group Finance Director on 5 October 1998. Terry was previously Finance Director of How Group plc. We welcome him and wish him well in his new appointment.



Eric Priestley joined the board on 1 February 1998 as a Non-executive Director. Eric brings extensive international experience and perspective, having spent the past eight years living and working in the United States, more recently as Vice President and Chief Operating Officer of Jefferson Smurfit Corporation.

#### STRATEGY FOR DEVELOPMENT

During the year under review, we have successfully built up sales from the new overseas factories to support customer requirements around the world. As a result of our strategy Avon now has a geographic presence in most of the major markets required by our automotive customers. This is reinforced by our expertise in technology transfer, both within the Group and in support of business partners in markets where we choose not to establish a wholly owned presence.

The acquisition of Cow Polymers in the UK has provided an important piece in the jigsaw for our automotive hose operations, soon to be supplemented by further investments in France and the Czech Republic to expand the product range and capacity to meet new orders.

In Technical Products, the acquisition of US businesses supplying products to the dairy, business machine and industrial markets has increased the focus on these sectors and helped to offset the expected downturn in revenue from the defence sector.

#### CORPORATE GOVERNANCE

We are in compliance with the Stock Exchange listing rules currently in force relating to Corporate Governance.

#### EMPLOYEES

More than 5,000 people work for Avon around the world. I would like to pay tribute to their very great contribution to the success of 1998. We have continuous improvement programmes in place in all areas of activity, and by innovation, better productivity and improved plant efficiency, we were able to enhance our competitiveness.

#### THE ENVIRONMENT

One of the major elements of our Statement of Values is the aspiration to be recognised as a value-adding partner to society. This also requires us to be good neighbours within the communities in which we operate, world-wide.

In pursuit of this long term goal, the Group will be working to attain ISO 14001, the International Standard for Environmental Management Systems, at all locations. Compliance to this standard will ensure that Avon Rubber is not only a good neighbour, but that the environmental impact of its products is in line with best practice standards.

#### OUTLOOK

Over recent years we have continued to develop our business internationally through new product development, extensive capital investment and appropriate acquisitions. We have also disposed of businesses where we felt the proceeds could be invested elsewhere to generate a better return for shareholders.

It is as a result of this strategy that we have achieved growth and improved profitability in markets that have been and will continue to be challenging. We expect to maintain our strategic progress in the coming year, to give improved focus in Technical Products and further international growth in Automotive Components. With a strong balance sheet, the Group is well positioned for the future.

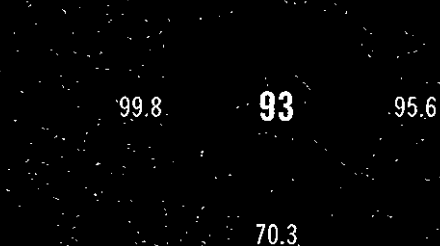


CHRISTOPHER KING CBE  
*Chairman*



# Avon at a glance 1993-1998

**Turnover by Division (£m) 1993**  
TOTAL £265.7m



**Turnover by Division (£m) 1998**  
TOTAL £267.1m



**Operating Profits by Division (£m) 1993**  
TOTAL £15.0m



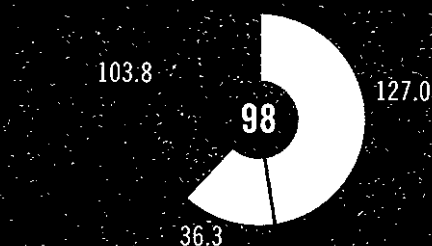
**Operating Profits by Division (£m) 1998**  
TOTAL £22.4m



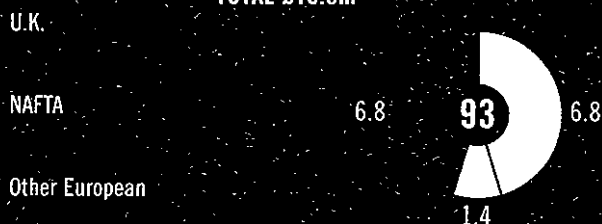
**Turnover by Origin (£m) 1993**  
TOTAL £265.7m



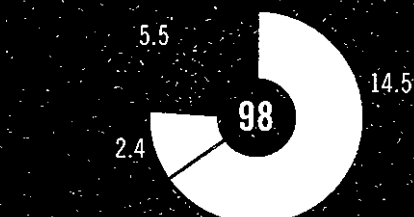
**Turnover by Origin (£m) 1998**  
TOTAL £267.1m



**Operating Profit by Origin (£m) 1993**  
TOTAL £15.0m



**Operating Profit by Origin (£m) 1998**  
TOTAL £22.4m



U.K.

NAFTA

Other European

## U.S.A.

Coolant hose  
Emission components  
Vacuum control assemblies  
Fuel hose products  
Technical mouldings  
Dairy components  
Industrial products

## GERMANY

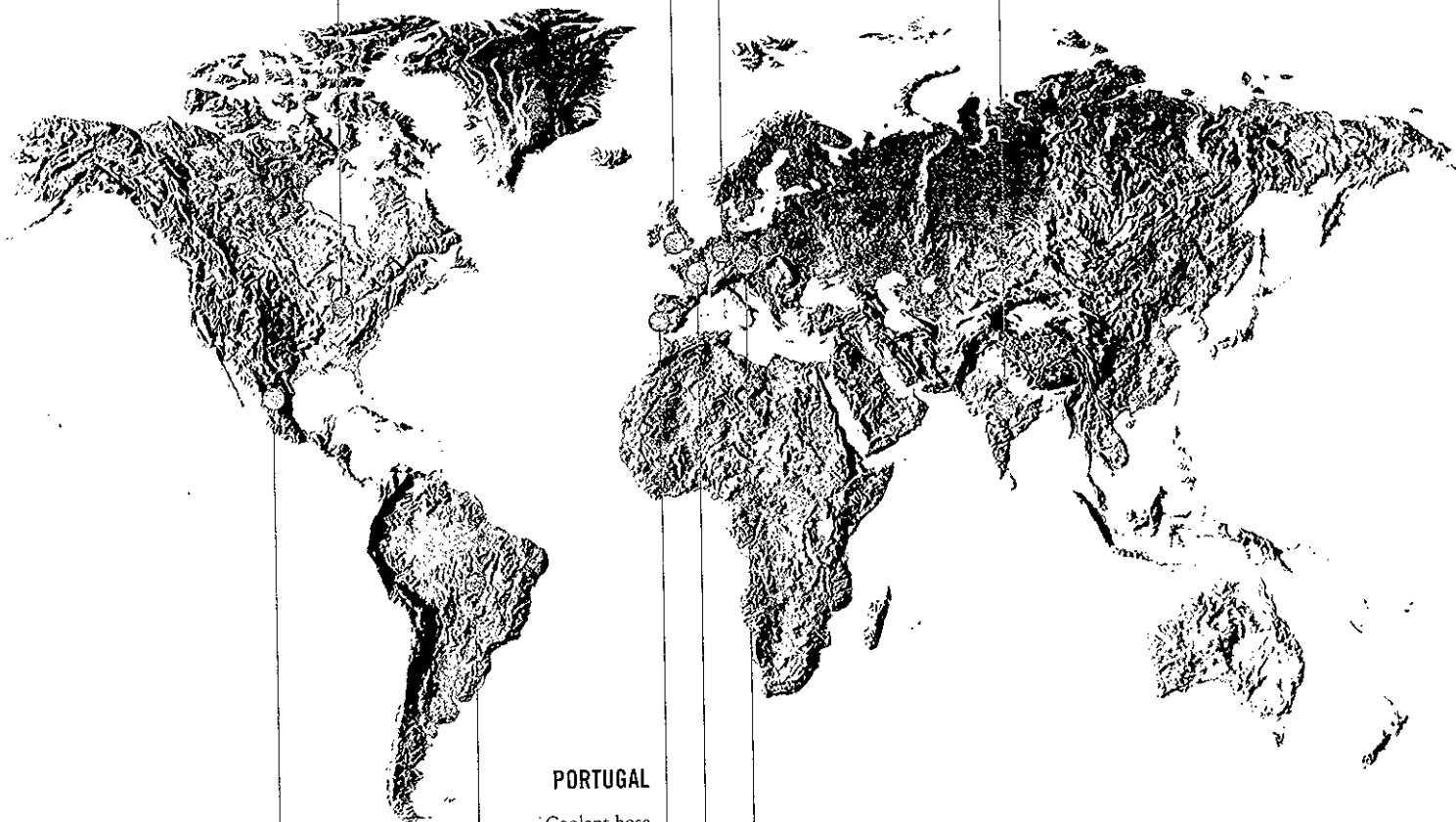
Engineering and sales support

## UNITED KINGDOM

Coolant hose  
Vibration management systems  
Dairy components  
Industrial products  
Technical mouldings

## INDIA

Coolant hose



## MEXICO

Coolant hose  
Emission components  
Vacuum control assemblies  
Technical mouldings

## PORTUGAL

Coolant hose

## FRANCE

Coolant hose  
Technical mouldings  
Railway components  
Crawler tracks

## \*BRAZIL

Coolant hose  
Fuel hose products

## CZECH REPUBLIC

Coolant hose  
Technical mouldings

\* Technology partner

During recent years  
we have been re-shaping  
Avon Rubber to  
generate sustainable  
and long-term value  
for shareholders.

# Chief Executive's review of operations

As a UK listed company, we are a European organisation for which North America is both a vital market and a substantial source of production and earnings. Less than one quarter of our profits and sales now come from the UK market. As a manufacturing company, we make things that work well; a polymer engineering company that matches the material to the job. The automotive industry consumes about three-quarters of the world's rubber products, with the remaining quarter being converted into a wide range of industrial and consumer products. Our focus is on automotive and industrial products and our pattern of sales reflects the global consumption figures.

We can deploy our polymer engineering expertise world-wide to ensure that the full range of Avon's resources is at the disposal of our customers.

During 1998 we have invested in capital equipment to support growth and in the acquisition of new business units. We continue to invest in training our employees whose creative ideas enable us to improve our processes, products and financial performance.

## ACQUISITIONS

The cash released by the sale of Avon Tyres has enabled us, as planned, to acquire a number of businesses in both the Automotive and Technical Products divisions which fit our strategy. The total investment of £45.2 million includes a deferred payment of £0.9 million.

Information on each acquisition is included in the divisional summaries which follow.

## MATERIALS TECHNOLOGY

The design, manufacture and processing of rubber compounds is a major strength for our company. We understand how our materials work in challenging environments and we can bring engineering solutions to customers' problems. With the planned withdrawal from the Melksham site, we are taking the opportunity to establish a world class mixing and materials development centre at Westbury in the UK.

It will supply the broad range of mixed rubber compounds we use and we are confident that we can combine our traditional compounding skills with effective production processes to meet and exceed customers' requirements for reliable quality products. As part of the materials development centre, we have established a global purchasing directorate who will work with our supplier partners and develop strategies to deliver innovative products at a competitive cost.

## FINANCIAL PERFORMANCE

Elsewhere in this report you will see the details of the financial performance for the 1997/98 year. We have increased earnings at a faster rate than our sales growth. This is because we have focused on better margin businesses and improvements in costs. Competitive pressures mean that prices in some of our major markets reduce year on year so that sales volume growth is in fact greater than is reflected in sales value. The strength of sterling has not been helpful because the strong pound makes the UK an attractive market to sell into and reduces both the price competitiveness of UK exports and the sterling value of overseas earnings. Nevertheless, we continue to secure additional business which reflects our customers' confidence in our abilities.

STEVE WILLCOX  
Chief Executive




We believe our future  
in automotive markets  
lies in providing  
innovative solutions for  
our global customers.



The continued growth in the Automotive division makes Avon one of the leading automotive hose manufacturing companies in the world.

## Automotive

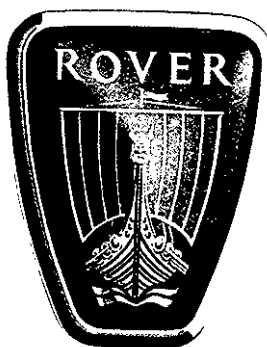
Avon Rubber is one of the leading automotive hose manufacturing companies in the world. We have the design capability to meet our customers' needs and manufacturing facilities in nine countries on four continents. We are Ford's nominated supplier of water hoses to its Fiesta programme world-wide. Our international manufacturing facilities are supported by technical and engineering centres in Europe and the US. In this way we can provide global products from local facilities to a consistent standard.

The purchase of Cow Polymers has added significant market share in the air hose sector as well as new customers. Early success includes increased business from Rover and Volvo which demonstrates the positive synergy between Cow Polymers and the rest of the Avon Group.



A new production line for coolant hose in the Czech Republic is in full operation and a further unit will be installed in the coming year. In Portugal, the hose facility at Tondela reached full output and has the capacity, with modest further investment, to expand as required.

Cadillac's operations in North America achieved an excellent performance with sales of fuel hose, emission assemblies and air hoses all contributing strongly. Sales of CADbar in the US have grown from zero to £30 million in three years and this high performance hose has replaced a lower value traditional product line. The development of new variants of the CADbar product range was completed during the year and these are expected to be incorporated in forthcoming vehicle designs in 1999 and beyond.



### TIMELINE

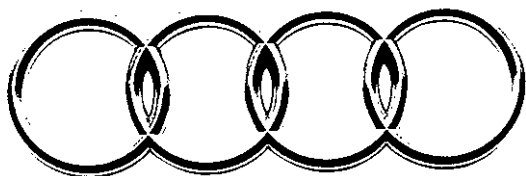
FEB 94 Gold Seal Avon new coolant hose factory in India commences production.

Cow Polymers acquired for £10.6 million.

Commencement of waterhose production in Orizaba, Mexico.



Avon provides global support to most of the world's leading automotive companies.



The Orizaba factory in Central Mexico commissioned a new water hose production cell to support contracts from Volkswagen for its new Beetle model, while the Cadimex facility at Juarez gained new business for emission control assemblies from Chrysler, GM and Ford and their tier one suppliers.

In addition to the new acquisition and facilities, we have a vigorous programme of technology transfer between plants which enables us to maximise the benefits to be gained from our product design and development activities. As an example, we are investing £1.4 million at our Brittany factory to manufacture CADbar fuel hose for the European market. This product was developed to help our customers' vehicles meet local clean air legislation in the United States.



expect similar clean air legislation to require improved emission standards in Europe within next few years and we already have production orders to support the investment we are making in France.

In addition to the fuel hose investment, substantial orders have been obtained for thermoplastic air duct hoses and new capacity has been installed in our French facility to meet this demand.

Vibration Management Systems at Chippenham in the UK benefited from new supply contracts with General Motors, Rover and Jaguar during the year as well as adding significant new business from Audi and Rover which will begin delivery in the coming year.

STEVE STONE


*Executive Director, Avon Automotive*

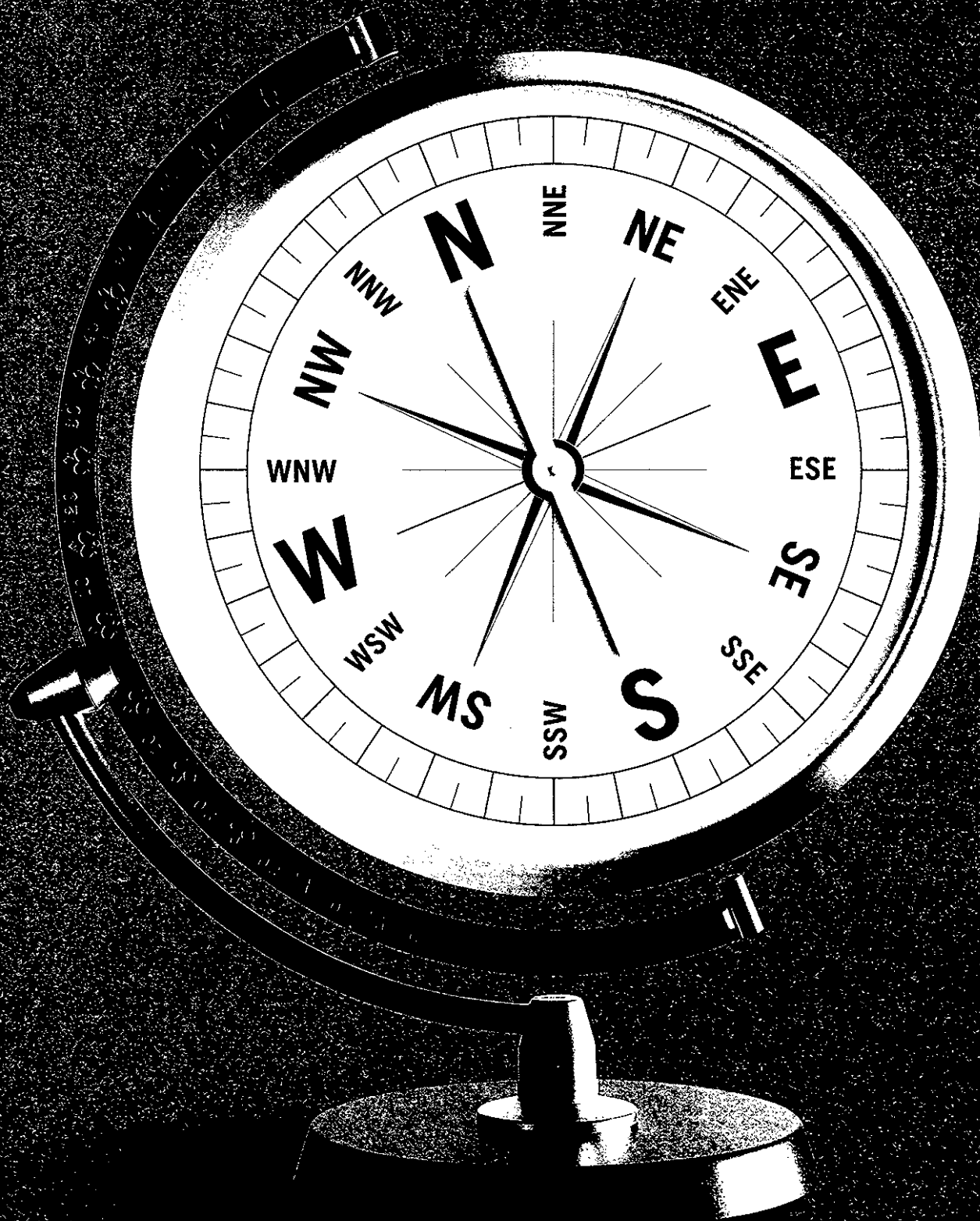


100% of Avon Rubber opens a new research and development centre in Leiston, UK.

11.3 Vibration Management Systems based in Chippenham, UK, are awarded the Annual Quality prize from Audi for all-round responsiveness.

We believe that  
future success for our  
Technical Products  
business lies in moving  
towards a stronger  
positioning in more  
sustainable markets.





With the acquisition of **Zatec**, **Hi-Life** and **Nylaflo**, Avon Technical Products has strengthened its business and provided a more stable foundation for its future.

Acquisitions underpin future growth and quality of earnings.

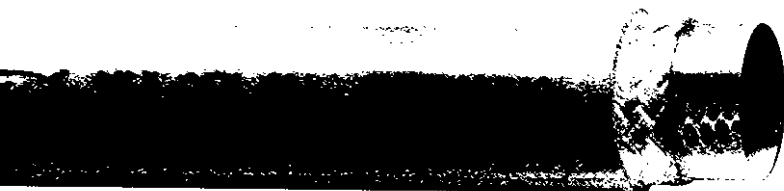
## Technical Products

A buoyant North American economy resulted in good demand for most of our products. Exceptions were oil field components, where the low price of oil reduced demand, and defence products where orders were down following the completion of the skirt programme for the US Navy landing craft. There was also a gap in orders for flexible fuel and water tanks. The weaker market for defence-related products was also apparent in Europe where the successful completion of a number of respirator contracts led to lower sales. At CQC, however, the order book for military textile products continued at a satisfactory level.

Consistent with our Group strategy, acquisitions were an important feature of the year for Avon Technical Products in North America. The cleaning blades produced by Zatec, a company which we acquired in December 1997, are critical components in the performance of a range of office equipment. By establishing manufacturing in the UK for the European market, we have released capacity in the US to meet local demand.

By adding to our existing technology and manufacturing bases in the UK and US, the purchase of Hi-Life in April 1998 positions Avon Rubber as the world's largest manufacturer of dairy liners. In addition to manufacturing for a number of dairy equipment companies, Hi-Life has developed its own innovative product ranges and the Milk-Rite brand is a leading name in the US dairy industry. Milk-Rite also merchandises a number of associated products through its catalogue and direct selling operations.

Nylatflow  
industrial hose for  
US market



### TIMELINE

Acquired Zatec, based in Boston US for £8.4 million.

Minority interest in Longbore acquired, to support and extend our polymer engineering skills.

Acquisition of Hi-Life (including Milk-Rite) for £22 million making Avon Rubber the world's largest manufacturer of dairy liners.

Hi-Life  
Avon - No. 1 in the  
world for dairy liners



The Nylaflow product line, acquired in September 1998, increases our product range to include reinforced plastic hoses. We plan to move production to our Cadillac site in Michigan. Nylaflow is a well recognised brand in a number of market sectors and the early performance of this business together with that of Zatec and Hi-Life has been very satisfactory.

We believe environmental challenges offer opportunities to a number of our businesses. In February 1998 we took a minority stake in Longbore Inc. based in Houston, Texas, a company which provides directional drilling services for environmental remediation and utility installations. As well as supplying polymer based products, we see opportunities to extend our polymer engineering skills in support of Longbore's activities.

In Europe, Avon Technical Products has made good progress in offsetting the impact of the expected downturn in defence revenues. Investment in new processes in aerosol gasket production has reduced costs and helped to offset the impact of the strong pound.

In France, we have consolidated all rubber mixing activities at the Avon Spencer Moulton facility near Fontainebleau and have increased capacity for the production of rubber crawler tracks used on civil engineering and agricultural vehicles.

The need to relocate our UK Technical Products rubber manufacturing from the Cooper-Avon Tyres site at Melksham presents an opportunity to review and improve operating arrangements. We are seeking to achieve substantial benefits from this opportunity.

ROGER HUNT

*Executive Director, Avon Technical Products*

Zatec  
Cleaning blades for  
business machines

Product range expanded by acquisition of  
Nylaflow (for industrial and automotive hose).

Upgrade of European mixing  
facilities in Malesherbes France.

Strategic co-operation agreement for  
crawler tracks renewed with Fukuyama Rubber  
Company of Japan.

# Financial review

for the year ended 3 October 1998

The Group accounts for 1998 have been prepared in accordance with applicable accounting standards.

The central part of the Group strategy is to secure a solid base for earnings growth. In 1998, earnings per share before exceptional items, reached a record level at 59.8 pence per share for continuing activities. The Group investment programme included the following acquisitions:

	Cost £m
Zatec Inc. (US) December 1997	8.4
Cow Polymers Ltd (UK) March 1998	10.6
Hi-Life Inc. (US) April 1998	22.0
Nylaflo (US) September 1998	4.2
	45.2

The cash paid for acquisitions in 1997/98 amounted to £44.3 million. The balance of £0.9 million will be paid in 1998/99. In accordance with Group accounting policy, goodwill arising on the above amounting to £35.2 million was written off to reserves. Full details of the acquisitions are shown on pages 55 and 56 of the report. The Group also commenced the investment programmes in Wiltshire for a new Technical Products factory at Melksham and a material mixing facility at Westbury with capital expenditure amounting to £2.0 million. The Kingston Mill site in Bradford on Avon was disposed of for £1.15 million.

## FINANCING

Due to the increasing international spread of the Group, especially in North America, a private placement in the United States was arranged in July 1998 for US\$60.0 million. The funding is for 10 years with an average life of 7 years at a fixed rate of 6.52% per annum. This financing is back to back with the cost of the US acquisitions and wrapped up some smaller long-term facilities relating to acquisitions in prior years.

## EXCHANGE RATE

The Group reports the trading results of overseas companies based upon average rates of exchange compared with sterling over the year. The main rates of exchange that impact Avon's overseas profit are as follows:

	1998 v£	1997 v£	% Change
US Dollar	1.65	1.63	1.2
French Franc	9.90	9.45	4.8
Czech Crown	55.00	49.00	12.2

The gain in sterling, compared with other currencies, caused a year on year reduction of £4.7 million in the sterling value of Group sales and £0.4 million in operating profit.

The balance sheets of foreign subsidiaries are converted into sterling based on the closing rates of exchange. The gains and losses arising on conversion are recorded in reserves as are gains or losses arising on borrowings in the same currencies, which act as a partial hedge against exchange rate exposure. It is Group policy not to engage in currency speculation. Most of the trading activities of each of the subsidiary companies are in local currency. Where transactions are in currencies which are foreign to a subsidiary, Group policy is that foreign exchange cover be arranged as appropriate to the transaction.



## TURNOVER

In the following summaries, 1997 figures have been restated at 1998 rates of exchange for comparative purposes.

Group turnover in 1998 of £267.1 million was 7.7% higher than the restated sales of the continuing businesses in 1997 of £248.0 million. By origin the change is as follows:

£ million	1998	1997*	% Change
United Kingdom	103.8	99.9	+3.9
Other European	36.3	32.1	+13.1
North America	127.0	116.0	+9.5
	<b>267.1</b>	<b>248.0</b>	<b>+7.7</b>

\*Restated at 1998 rates of exchange

Sales by overseas companies represented 61% of Group turnover in 1998 compared with 60% in 1997 in the continuing businesses; the increase being due mainly to the overseas acquisitions. Export sales from UK based companies in 1998 were £42.2 million (1997: £47.1 million).

A strong and improved performance was achieved throughout the Automotive division in Europe and North America. In Europe, an increase in market position in water hose supply resulted in higher output from our plants in Portugal and the Czech Republic. There was an increase in the sale of engine mounts from Vibration Management Systems at Chippenham which, combined with the addition of air hose volume from Cow Polymers in Croydon in the second half of the year, resulted in improved UK automotive sales overall.

In North America, sales increased at the Cadillac facilities in Michigan, New York State and Mexico through the continuing development of fuel permeation resistant products, injected and plastic components and new coolant hose production.

In Technical Products, the expected reduction in the UK of respirator volume was offset in part by the addition of dairy liner volume at Hi-Life and business machine component sales from Zatec in North America. Aerosol component sales in the UK were lower than 1997. Subdued demand for dairy liners in Europe prevailed for most of the year. However, there was an encouraging increase in call-off in the latter part of the year. In North America, the oil and gas market demand for drilling components was weak but the last quarter of the year saw an increase in orders for Bell Avon hovercraft skirts for the US Navy replacement programme and military fuel and water tanks, following 18 months of very low demand.

By business sector the change in turnover is analysed as follows:

£ million	1998	1997*	% Change
Automotive	196.1	172.3	+13.8
Technical Products	71.0	75.7	-6.2
Total	<b>267.1</b>	<b>248.0</b>	<b>+7.7</b>

\*Restated at 1998 rates of exchange

## OPERATING PROFIT

There was an improvement in operating profit and margin throughout the Automotive division. This was due to the investments in recent years both in developing new products from which new business is flowing and the installation of new production processes in many of the major plants. Emphasis on quality, delivery and cost control have been essential ingredients in offsetting the continual impact of pressure on pricing.

# Financial review Continued

for the year ended 3 October 1998

## OPERATING PROFIT continued

In Technical Products, the year saw the start of a change in the sources of earnings from those of a less predictable nature from defence-related products, especially UK respirator sales, to earnings from steadier markets such as dairy and business machines. The acquisition in September of the Nylaflow division of DSM in North America will further underpin earnings from industrial markets. The change in operating profit included a reduction of £2.2 million from the lower respirator sales which was partially offset by the new profits from Hi-Life and Zatec.

The 1998 figures include the following results with respect to the businesses acquired during 1998:

£ million	Automotive	Technical	Total
Sales	6.6	8.9	15.5
Operating profits	0.7	2.3	3.0

By origin, the changes in operating profit are as follows:

£ million	1998	1997*	% Change
United Kingdom	5.5	5.4	+1.8
Other European	2.4	1.9	+26.3
North America	14.5	11.8	+22.9
Total	22.4	19.1	+17.3

\* Restated at 1998 rates of exchange

By business sector the changes in operating profit are as follows:

£ million	1998	1997*	% Change
Automotive	15.8	12.1	+30.6
Technical Products	6.6	7.0	-5.7
Total	22.4	19.1	+17.3

\* Restated at 1998 rates of exchange

## PROFIT BEFORE TAXATION

The Group profit before taxation and exceptional items has improved by 20.2% to £23.2 million (1997: £19.3 million) and represents a return on sales of 8.7% compared with 7.7% in 1997 on a published basis.

## TAXATION

The taxation charge of £7.0 million represents an effective rate on continuing activities of 30.2% compared with 33% in 1997. As between the overseas companies and those in the UK the effective rates compared with those of 1997 are as follows:

	1998 %	1997 %
UK	19	26
Overseas	40	36

## CAPITAL EXPENDITURE

There was a considerable capital investment programme in 1998 which in total amounted to £58.1 million (net) as follows:

	£ million	£ million
Acquisitions		45.2
New plant and mixing facility in Wiltshire		2.0
New investment		47.2
Capital expenditure		
Continuing businesses	10.7	
By acquired businesses	1.3	12.0
		59.2
Proceeds from Kingston Mill		
Disposal		(1.1)
New capital investment (net)		58.1

Capital expenditure on continuing activities in 1998 of £14.0 million (1997: £7.5 million) reflected the increase in development expenditure and additional production systems needed in the Automotive division. The increase in expenditure in Technical Products was mainly due to the installation of new mixing facilities at the French plant near Fontainebleau and the additions at Hi-Life and Zatec amounting to £0.6 million. By division, capital expenditure was as follows:

£ million	1998	1997	% Change
Automotive	8.8	5.5	+60
Technical Products	3.2	2.0	+60
New plant in Wiltshire	2.0	—	—
Total	14.0	7.5	+87

Capital expenditure represented 1.6 times depreciation in 1998 of £8.9 million (1997: 0.9 times on depreciation £8.6 million).

## CASH FLOW

The opening net funds position of the Group was £32.5 million. There was a change of £35.0 million to a net debt position at the end of the year of £2.5 million. The latter represents a gearing ratio of 3% of shareholders equity.

Working capital management is a very important part of the management process and there was further improvement in control resulting in a ratio of sales to trade working capital of 13.5% compared with 16.1% at the end of 1997.

The main features in the cash flow this year, which include an operating cash generation of £8.2 million, were as follows:

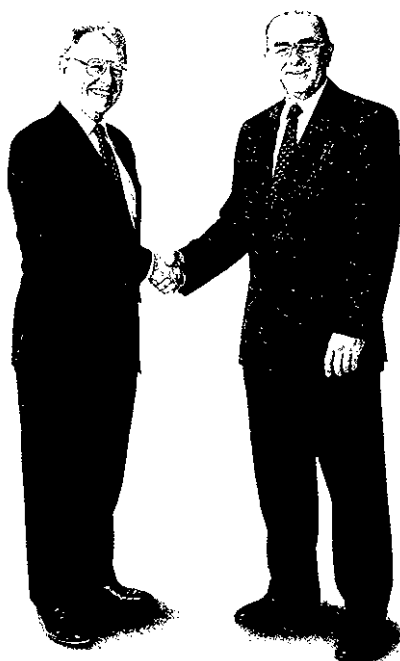
	£ million
Net funds at end of 1997	32.5
Acquisitions	(44.3)
Disposal of property	1.1
Operating cash flow	8.2
Net (debt) at end of 1998	(2.5)

## RETURN ON CAPITAL EMPLOYED

The return on capital employed was 26.2% compared with 25.5% in 1997.

TERRY STEAD

*Finance Director*



HAMISH McPHIE  
*Retiring Finance Director*

TERRY STEAD  
*Finance Director*

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# Board of Directors

## CHRISTOPHER KING CBE *Chairman*

Aged 62. He has been a member of the board since January 1995 and was appointed Chairman in January 1997. He spent 35 years with BP in Europe and the US and was Chairman of BP Europe until retiring in 1994. He is a Non-executive Director of the BOC Group plc and other companies. He has an MBA from INSEAD and is a member of the INSEAD board. He was made a CBE in the 1995 New Year's Honours List.

## STEVE WILLCOX *Chief Executive*

Aged 52. He was appointed to the board in 1991 as the director responsible for Avon's polymer interests in Europe, becoming Chief Executive on 1 January 1995. He joined the company in 1968 as a graduate trainee.

## TERRY STEAD *Finance Director*

Aged 49. He joined the company on 1 September 1998 and was appointed to the board on 5 October 1998. An honours graduate from Bristol University, he qualified as a chartered accountant with KPMG. He was Group Finance Director of How Group plc until the take-over of that company by Tilbury Douglas in June 1998, having previously worked for several years with Lucas Industries plc in a number of senior finance roles.

## HAMISH McPHIE *Executive Director*

Aged 56. He was appointed to the board on 1 October 1995 having previously held a similar position with Molins plc. Having qualified as an accountant in Bristol, he spent many years in international manufacturing businesses including American Standard, Babcock International plc and BTR plc. He will retire in April 1999.

## STEVE STONE *Executive Director, Avon Automotive*

Aged 48. He was appointed to the board on 1 June 1995 having previously been Managing Director of Avon Automotive Components. A graduate chemist and Fellow of the Institute of Materials, he joined the company in 1966 as a technical trainee.

## ROGER HUNT *Executive Director, Avon Technical Products*

Aged 54. He was appointed to the board in September 1997, having joined the company in May 1994 as Director of corporate planning. In 1996 he was made responsible for the European operations of the Technical Products division. He has now assumed responsibility for the world-wide operations of Avon Technical Products and the corporate office of Avon Rubber & Plastics Inc. and is based in Cadillac, Michigan.

## ERIC PRIESTLEY *Non-executive Director*

Aged 56. He was appointed to the board in February this year. He has returned to Europe after 8 years in the United States where he was more recently Chief Operating Officer of Jefferson Smurfit Corporation and was previously the President and Chief Executive of Rexam Inc. He was a director of Redland PLC from 1980 to 1988 and a director of Rexam PLC from 1988 to 1996. He is currently the Non-executive Chairman of Lynx Express Limited and a Non-executive Director of Southwire Company of Atlanta, US.

## TREVOR BONNER CBE *Deputy Chairman and Senior Independent Director*

Aged 55. A chartered accountant, he was appointed to the board in September 1994. He was appointed Deputy Chairman in March this year and Senior Independent Director in July. In December this year he will retire as an Executive Director of GKN plc, a position he has held since 1985. He is President of the Society of Motor Manufacturers and Traders and a Non-executive Director of LDV Limited. He was made a CBE in the 1996 Birthday Honours List.

## JOHN CUTTS *Non-executive Director*

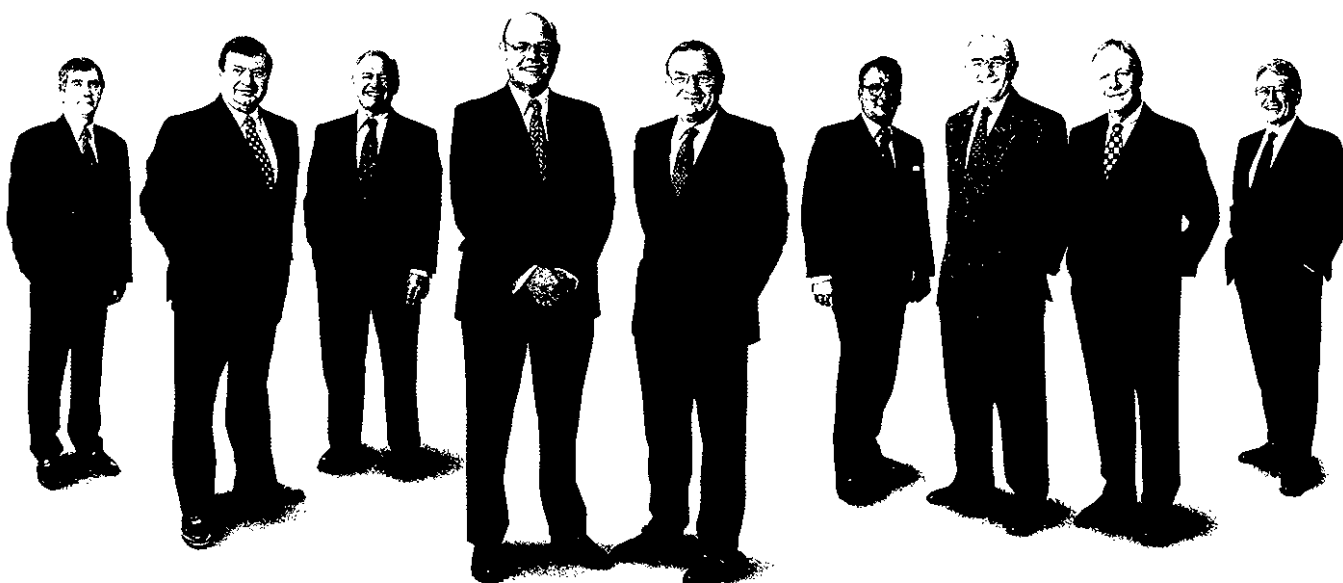
Aged 48. He was appointed to the board in June 1997. As a Managing Director of West LB Panmure Gordon & Co Limited, he is responsible for their corporate finance activities in Western Europe. He is the Non-executive Chairman of Berry Palmer and Lyle and the Friedland Group. He read engineering at the University of Sussex and has an MBA from INSEAD.

### LEFT TO RIGHT:

Trevor Bonner CBE, Steve Stone, Eric Priestley, Steve Willcox, Christopher King CBE, John Cutts, Terry Stead, Roger Hunt, Hamish McPhie.

### Committees of the Board

The Chairman and the Non-executive Directors are the members of the Senior Executive Remuneration and Benefits Committee and the Audit Committee. Mr Bonner is Chairman of the Audit Committee.



# Directors' Report

for the year ended 3 October 1998

The directors submit the one hundred and eighth annual report and audited financial statements of the company for the year ended 3 October 1998.

## 1. Principal activities and business review

The principal activities of the Group are:

- Manufacture of components for the automotive industries
- Manufacture of other polymer based products

The business review, including commentary on future developments, is covered on pages 1–19.

## 2. Results and dividend

The Group profit for the year before taxation and exceptional items amounts to £23,187,000 (1997 £19,312,000). The Group profit for the year after taxation and minority interests but before exceptional items amounts to £16,438,000 (1997 £12,391,000). An interim dividend of 6.60p per share (1997 6.15p) was paid on 26 June 1998. The directors recommend a final dividend, to be paid as a foreign income dividend, of 16.2p per share (1997 15.00p) making a total of 22.8p per share for the year to 3 October 1998 (1997 21.15p). Full details are set out in the profit and loss account on page 31. The total distribution of dividends for the year to 3 October 1998 is £6,298,000 (1997 £5,800,000).

## 3. Directors

The names of the directors as at 3 December 1998 are set out on page 21. None of the directors had 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 28.

Mr. G.T.E. Priestley and Mr. T.K.P. Stead, who were appointed to the board on 1 February 1998 and 5 October 1998 respectively, retire as directors under Article 91 and, being eligible, offer themselves for re-election. Mr. C.P. King, CBE and Mr. S.J. Willcox retire in rotation as directors and, being eligible, offer themselves for re-election. Mr. D.C. Samardich retired as a director on 31 December 1997.

Mr. S.J. Willcox and Mr. T.K.P. Stead have service contracts with the company requiring two years' notice of termination subject to retirement at age 60. Neither Mr. C.P. King, CBE nor Mr. G.T.E. Priestley has a service contract with the company.

## 4. Substantial shareholdings

At 2 December 1998, the following shareholders held 3% or more of the Company's issued ordinary share capital.

Morgan Grenfell Asset Management Limited	9.94%
Schroder Investment Management Limited	9.26%
Prudential Portfolio Managers Limited	8.14%
Threadneedle Investment Managers Limited including non-notifiable interests	7.30%
Fleming Investment Management Limited	5.57%
Discretionary clients of Edinburgh Fund Managers plc	4.88%
Britannic Assurance plc	4.32%
Legal & General Investment Management Limited	3.59%
Jupiter Asset Management Limited	3.49%

## 5. Political and charitable contributions

No political contributions were made during the year. Contributions for charitable purposes amounted to £69,000 (1997 £100,000).

## 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 3 October 1998, the number of days' purchases outstanding at the end of the financial year for the Group were 49 days (1997 51 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 were 38 days (1997 28 days).

# Directors' Report Continued

for the year ended 3 October 1998

## 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 which 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. The policy provides that full and fair consideration will be given to disabled applicants for employment and that 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 all 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 and will be using the IIP framework in its businesses around the world.

## 9. Research and development

The Group's investment in research and development on continuing activities in the year to 3 October 1998 amounted to £4.6 million (1997: £4.5million).

Much of the key product and process development is undertaken by the individual business units with specialist input from the Group's development centres focusing on materials, hose and anti-vibration products. The recently completed development centre at Westbury provides support to the Group world-wide on the ever-widening range of materials that are candidates for tomorrow's demanding products. Recent acquisitions bring additional technical expertise and demands to the Group which will enhance our total polymer engineering capability.

## 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. Year 2000 and European Monetary Union

The Group has conducted an on-going review during the past two years aimed at ensuring that all IT systems either are or will be year 2000 compliant and that all critical embedded chips in production and process equipment will have been checked and/or replaced as necessary. We believe all IT systems within each of the Group's businesses will be compliant in line with the programme. The area of uncertainty and potentially some risk is that of embedded chips in production equipment. However, we believe that all essential equipment has been covered by our review. Contact with all major customers and suppliers has been made and our plans are targeted to ensure that our businesses will be year 2000 compliant by March 1999. The incremental costs of this exercise have been covered within normal IT expenditure and are not considered material.

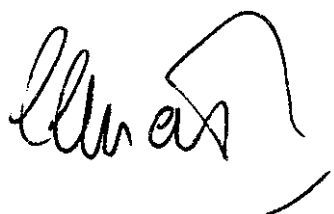
A significant part of the Group's turnover and business operations are with customers and in countries that will form the Economic and Monetary Union in January 1999. Our business process includes the marketing and supply strategies necessary to obtain full advantage should Britain join EMU. Meanwhile an internal steering group is heading the consideration of legal, finance, personnel and other administrative issues in support of our business units. At this stage of our review costs incurred have not been material.

## 12. Auditors

Following the merger of Coopers & Lybrand and Price Waterhouse on 1 July 1998, Coopers & Lybrand resigned as our auditors and the new firm PricewaterhouseCoopers was appointed to fill a casual vacancy. 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  
4 December 1998



# Corporate Governance

Statement of compliance with the Code of Best Practice

The company complied throughout the year, and remains in compliance with, the Code of Best Practice incorporated in the report of the Cadbury Committee on the financial aspects of Corporate Governance.

The board has reviewed, and will continue to review on an annual basis, the Group's system of internal controls. This review has covered financial, operational and compliance controls and risk management.

The directors describe below some of the key procedures which are designed to achieve effective internal financial control.

## Internal Financial Controls

The directors acknowledge their responsibility for the Group's system of internal financial control. The system can provide only reasonable, and not absolute, assurance against material misstatements or losses. Among the procedures designed to maintain an appropriate control environment are the following:

- 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 has been in place for some time.
- Procedures are in place to identify any major business risks and evaluate their potential financial effects.
- 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.
- 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 auditors to review specific accounting, reporting and internal financial control matters. The Committee also reviews the interim, preliminary and annual results 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.

Trevor Bonner, CBE  
Chairman of the Audit Committee



# Corporate Governance

Statement of compliance with the Code of Best Practice

## Report of the Auditors to Avon Rubber p.l.c. on Corporate Governance Matters

In addition to our audit of the financial statements, we have reviewed the directors' statements on page 24 concerning the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to any non-compliance with Listing Rules 12.43(j) and 12.43(v).

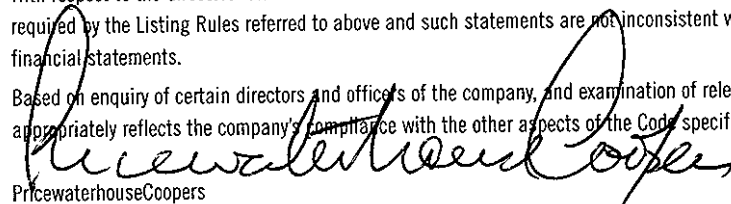
### Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures, nor on the ability of the Group and company to continue in operational existence.

### Opinion

With respect to the directors' statements on internal financial control and going concern on page 24, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statements on page 24 appropriately reflects the company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).



PricewaterhouseCoopers  
Chartered Accountants, Bristol  
4 December 1998

# Report of the Remuneration Committee

for the year ended 3 October 1998

The Senior Executive Remuneration and Benefits Committee consists exclusively of Non-executive Directors, namely:

Mr. C.P. King CBE (Chairman of the Committee)

Mr. T.C. Bonner CBE

Mr. J.W. Cutts

Mr. G.T.E. Priestley

No member of the Committee has any personal financial interest (other than the shareholdings set out on page 28), conflicts of interest arising from cross-directorships or day-to-day involvement in running the business.

The company was in compliance throughout the year, and remains in compliance with, Section A of the best practice provisions annexed to the London Stock Exchange's Listing Rules, which concerns the membership and operation of the Remuneration Committee.

The Remuneration Committee decides the remuneration policy that applies to executive directors and other senior management. In determining that policy it has given full consideration to section B of the best practice provisions annexed to the London Stock Exchange's Listing Rules. In setting the policy it considers a number of factors, including the need to attract and retain directors of an appropriate calibre and the need to ensure executive directors' commitment to the continued success of the company by means of appropriate incentive schemes.

The Committee generally meets three times a year.

## Remuneration policy for executive directors

The company's remuneration policy for executive directors is to:

- Have regard to the directors' experience and the nature and complexity of their work in order to offer competitive salary and benefit arrangements that attract and retain management of the highest quality.
- Link individual remuneration packages to the Group's long-term performance through the use of long-term incentive schemes involving share options.
- Ensure that the performance-related elements of remuneration are relevant, demanding and business enhancing and designed to align the interests of directors and shareholders.

## 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 8,463 shares as part of their annual bonus for the 1996/97 financial year.

The maximum number of shares comprised in the conditional awards to directors and senior employees under this Scheme in its first two years of operation are as follows:

	Total granted to date	Granted 1998	Granted 1997
S.J. Willcox	14,271	8,088	6,183
S.J. Stone	9,000	5,124	3,876
I.A.H. McPhie	10,221	5,793	4,428
R.A. Hunt	2,457	1,518	939
D.C. Samardich	4,368	—	4,368
Other senior employees	7,845	4,866	2,979

In accordance with the rules of the 1996 scheme, the conditional award to D.C. Samardich did not lapse on his retirement.

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.

# Report of the Remuneration Committee Continued

for the year ended 3 October 1998

## Pensions

All the executive directors are currently members of the Group's Senior Executive Retirement and Death Benefits 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. I.A.H. McPhie, Mr R.A. Hunt and Mr. T. K. P. Stead.

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

## Contracts of service

All of the executive directors have contracts of service which can be terminated by the company with a notice period of two years.

The Committee's view is that one-year rolling contracts would not give the company the continuity that is desirable at the most senior level.

It is the Committee's policy to review any case of early termination individually in order to ensure compensation settlements are made which are appropriate to the circumstances, taking care to ensure that poor performance is not rewarded.

## Directors' Emoluments

	Basic salary & fees £'000	Other benefits £'000	Annual bonus £'000	Total emoluments excluding pensions		Pension ** contributions		Total emoluments including pensions	
				1998 £'000	1997 £'000	1998 £'000	1997 £'000	1998 £'000	1997 £'000
<b>Executive</b>									
S.J. Willcox (highest paid director)	190	15	77	282	247	—	—	282	247
R.A. Hunt	109	18	43	170	13	12	—	182	13
I.A.H. McPhie	135	12	55	202	187	17	15	219	202
D.C. Samardich (retired 31.12.97)	29	181	—	210	184	15	65	225	249
S.J. Stone	123	13	50	186	161	—	—	186	161
<b>Non-executive</b>									
C.P. King CBE (Chairman)	40	—	—	40	34	—	—	40	34
T.C. Bonner CBE (Deputy Chairman)	18	—	—	18	18	—	—	18	18
*J.W. Cutts	18	—	—	18	6	—	—	18	6
G.T.E. Priestley (appointed 1.2.98)	12	—	—	12	—	—	—	12	—
Lord Farnham (retired 22.1.97)	—	—	—	—	13	—	—	—	13
J.M. Pinckard (retired 22.1.97)	—	—	—	—	6	—	—	—	6
<b>Total 1998</b>	<b>674</b>	<b>239</b>	<b>225</b>	<b>1,138</b>	<b>—</b>	<b>44</b>	<b>—</b>	<b>1,182</b>	<b>—</b>
<b>Total 1997</b>	<b>631</b>	<b>57</b>	<b>181</b>	<b>—</b>	<b>869</b>	<b>—</b>	<b>80</b>	<b>—</b>	<b>949</b>

\*The emoluments of J.W. Cutts include fees of £18,000 paid during the year to West Merchant Bank Limited, of which J.W. Cutts was a director, relating to services provided.

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

Other benefits paid to D.C. Samardich include £178,000 compensation for loss of office in accordance with the terms of his service contract.

No director waived emoluments in respect of the year ended 3 October 1998.

# Report of the Remuneration Committee Continued

for the year ended 3 October 1998

## 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	I.A.H. McPhie	R.A. Hunt
Accrued entitlement as at 3 October 1998	£91,502p.a.	£62,440p.a.	£8,580p.a.	£12,631p.a.
Increase in accrued entitlement over the period in excess of the increase awarded to deferred pensioners	£9,870p.a.	£6,761p.a.	£2,947p.a.	£6,740p.a.
Contributions paid by each director over the period	£10,456	£6,599	£4,719	£4,719
Increase in the transfer value over the year (net of the director's contributions)	£63,783	£36,895	£34,355	£42,171

## Directors' Interests

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

	At the beginning of the year or date of appointment	At the end of the year
C.P. King CBE	3,000	6,000
T.C. Bonner CBE	2,000	2,000
J.W. Cutts	—	—
R.A. Hunt*	782	1,288
I.A.H. McPhie	7,624	9,555
G.T.E. Priestley	—	2,000
S.J. Stone	4,067	7,666
S.J. Willcox	8,335	15,761

Mr. T. K. P. Stead, who was appointed to the board on 5 October 1998, had a beneficial interest in 2,000 ordinary shares of the company at the date of his appointment and at 4 December 1998.

Apart from the acquisition by Mr. G.T.E. Priestley on 3 December 1998 of 10,000 ordinary shares, no movements occurred in directors' shareholdings between the end of the financial year and 4 December 1998.

# Report of the Remuneration Committee Continued

for the year ended 3 October 1998

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

## Executive Share Option Scheme:

	Number of options at 27/9/97	Granted during the year	Exercised during the year	Number of options at 3/10/98	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
I.A.H. McPhie	39,000	—	—	39,000	5.03	Apr 2001
R.A. Hunt	15,000	—	—	15,000	5.10	May 2005

In the case of Mr. I.A.H. McPhie, who will be retiring in April 1999, the remuneration committee has determined that his executive share options may be exercised within two years of his retirement date.

No directors' options have lapsed during the year unexercised.

## Savings Related Share Option Schemes:

	Number of options at 27/9/97	Granted during the year	Exercised during the year	Number of options at 3/10/98	Exercise price (£)	Exercisable during
S.J. Willcox	4,730	—	4,730	—	1.90	—
	5,301	—	—	5,301	2.55	1999
	841	—	—	841	3.80	2003
	—	3,253	—	3,253	5.01	2005
S.J. Stone	1,891	—	1,891	—	1.90	—
	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

No directors' options have lapsed during the year unexercised.

At 3 October 1998 other employees held options for 583,837 ordinary shares, exercisable between 1998 and 2005, at option prices ranging from £2.55 to £5.79.

All options are over ordinary shares of £1 each.

At 3 October 1998, the market price of Avon Rubber p.l.c. shares was £4.05 (1997 £6.20). During the year the highest and lowest market prices were £7.01 and £4.05 respectively.

Christopher King, CBE  
Chairman of the Remuneration Committee

# Statement of Directors' Responsibilities

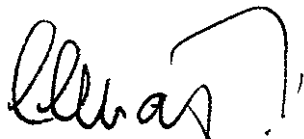
for the year ended 3 October 1998

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 company and 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 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 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  
4 December 1998



## Auditors' Report

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

We have audited the financial statements on pages 31 to 57, 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 36 and 37.

### Respective responsibilities of directors and auditors

As described above the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

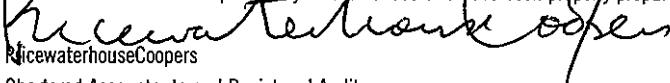
### Basis of opinion

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 Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 3 October 1998 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.



R. Waterhouse

Chartered Accountants and Registered Auditors

Bristol

4 December 1998

# Consolidated Profit and Loss Account

for the year ended 3 October 1998

	Note	1998			1997		
		Before exceptional items £'000	Exceptional items £'000	Total £'000	Before exceptional items £'000	Exceptional items £'000	Total £'000
<b>Turnover</b>	2						
Continuing activities		251,531	—	251,531	251,948	—	251,948
Acquisitions		15,554	—	15,554	—	—	—
		267,085	—	267,085	251,948	—	251,948
Discontinued activities		—	—	—	38,700	—	38,700
<b>Total turnover</b>		267,085	—	267,085	290,648	—	290,648
Cost of sales	3	(216,174)	—	(216,174)	(239,466)	—	(239,466)
Gross profit		50,911	—	50,911	51,182	—	51,182
Net operating expenses	3	(28,586)	—	(28,586)	(31,424)	(4,000)	(35,424)
Share of operating profits of joint ventures and associated companies	4	26	—	26	80	—	80
<b>Operating profit</b>	2						
Continuing activities		19,361	—	19,361	19,393	(4,000)	15,393
Acquisitions		2,990	—	2,990	—	—	—
		22,351	—	22,351	19,393	(4,000)	15,393
Discontinued activities		—	—	—	445	—	445
<b>Total operating profit</b>		22,351	—	22,351	19,838	(4,000)	15,838
Profit on sale of property	5	—	993	993	—	—	—
Loss on sale of fixed asset investment	5	—	(275)	(275)	—	—	—
Profit on sale of discontinued activities		—	—	—	—	11,047	11,047
<b>Profit on ordinary activities before interest</b>		22,351	718	23,069	19,838	7,047	26,885
Interest payable	6	(3,014)	—	(3,014)	(2,759)	—	(2,759)
Interest receivable	6	3,850	—	3,850	2,233	—	2,233
<b>Profit on ordinary activities before taxation</b>	7	23,187	718	23,905	19,312	7,047	26,359
Taxation	8	(7,003)	—	(7,003)	(6,840)	(224)	(7,064)
<b>Profit on ordinary activities after taxation</b>		16,184	718	16,902	12,472	6,823	19,295
Minority interests		254	—	254	(81)	—	(81)
<b>Profit for the year</b>		16,438	718	17,156	12,391	6,823	19,214
Dividends (including non-equity interests)	9	(6,298)	—	(6,298)	(5,800)	—	(5,800)
<b>Retained profit for the year</b>	27	10,140	718	10,858	6,591	6,823	13,414
<b>Earnings per ordinary share</b>	10						
Basic				62.4p			70.8p
All activities before exceptional items		59.8p			45.6p		
Continuing activities before exceptional items		59.8p			47.3p		

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 & Losses

for the year ended 3 October 1998

	Note	1998 £'000	1997 £'000
Profit for the year		17,156	19,214
Net exchange differences on overseas investments	27	(1,268)	(1,966)
<b>Total gains and losses for the year</b>		<b>15,888</b>	<b>17,248</b>

# Reconciliation of Movements in Shareholders' Funds

for the year ended 3 October 1998

	1998 £'000	1997 £'000
Opening shareholders' funds	105,791	90,802
Profit for the year	17,156	19,214
Transfer of revaluation surplus on sale of subsidiary	—	(74)
Dividends	(6,298)	(5,531)
Net exchange difference on overseas investments	(1,268)	(1,966)
New share capital subscribed (net)	273	1,383
Goodwill written off on acquisitions	(35,249)	(365)
Goodwill previously written off now charged to profit and loss account	—	2,328
<b>Closing shareholders' funds</b>	<b>80,405</b>	<b>105,791</b>
Equity shareholders' funds	79,905	105,291
Non-equity shareholders' funds	500	500
	<b>80,405</b>	<b>105,791</b>



# Consolidated Balance Sheet

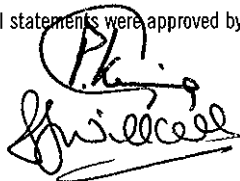
at 3 October 1998

	Note	1998 £'000	1997 £'000
<b>Fixed assets</b>			
Tangible assets	13	67,408	57,073
Investments	15	1,001	1,450
		<b>68,409</b>	<b>58,523</b>
<b>Current assets</b>			
Stocks	18	21,444	20,224
Debtors – Amounts falling due within one year	19	48,502	47,953
Debtors – Amounts falling due after more than one year	19	5,419	3,021
Investments	20	36,800	35,000
Cash at bank and in hand		6,473	16,281
		<b>118,638</b>	<b>122,479</b>
<b>Creditors</b>			
Amounts falling due within one year	21	55,389	47,918
<b>Net current assets</b>		<b>63,249</b>	<b>74,561</b>
<b>Total assets less current liabilities</b>		<b>131,658</b>	<b>133,084</b>
<b>Creditors</b>			
Amounts falling due after more than one year	22	43,564	18,361
Provisions for liabilities and charges	23	5,263	6,156
		<b>48,827</b>	<b>24,517</b>
<b>Net assets</b>		<b>82,831</b>	<b>108,567</b>
<b>Capital and reserves</b>			
Share capital	26	28,218	27,934
Share premium account	27	33,642	32,243
Revaluation reserve	27	2,735	2,411
Profit and loss account	27	15,810	43,203
<b>Shareholders' funds (including non-equity interests)</b>		<b>80,405</b>	<b>105,791</b>
Minority interests (equity interests)		2,426	2,776
		<b>82,831</b>	<b>108,567</b>

These financial statements were approved by the board of directors on 4 December 1998 and were signed on its behalf by:

C.P. King CBE

S.J. Willcox



# Parent Company Balance Sheet

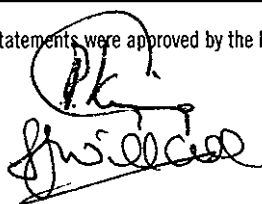
at 3 October 1998

	Note	1998		1997	
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Tangible assets	14		2,096		2,081
Investments	16		94,295		95,040
			96,391		97,121
<b>Current assets</b>					
Debtors	19	8,371		3,940	
Investments	20	36,800		35,000	
Cash at bank and in hand		2,034		873	
		47,205		39,813	
<b>Creditors</b>					
Amounts falling due within one year	21	30,261		38,328	
<b>Net current assets</b>			16,944		1,485
<b>Total assets less current liabilities</b>			113,335		98,606
<b>Creditors</b>					
Amounts falling due after more than one year	22	1,067		1,052	
Provisions for liabilities and charges	24	—		12	
			1,067		1,064
<b>Net assets</b>			112,268		97,542
<b>Capital and reserves</b>					
Share capital	26		28,218		27,934
Share premium account	28		33,642		32,243
Merger reserve	28		16,439		16,439
Revaluation reserve	28		733		409
Profit and loss account	28		33,236		20,517
<b>Shareholders' funds (including non-equity interests)</b>			112,268		97,542

These financial statements were approved by the board of directors on 4 December 1998 and were signed on its behalf by:

C.P. King CBE

S.J. Willcox



# Consolidated Cash Flow Statement

for the year ended 3 October 1998

	Note	1998 £'000	1997 £'000
<b>Net cash flow from operating activities</b>	30		
Continuing activities		33,093	21,312
Discontinued activities		—	(1,725)
		33,093	19,587
<b>Dividends from joint ventures and associates</b>		149	211
<b>Returns on investments and servicing of finance</b>			
Interest received		4,344	1,651
Interest paid		(2,777)	(2,276)
Interest paid on finance leases		(165)	(160)
Preference dividends paid		(25)	(25)
Dividends paid to minority shareholders		(147)	(245)
		1,230	(1,055)
<b>Taxation</b>			
Corporation tax paid		(7,624)	(7,803)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(14,047)	(10,230)
Sale of tangible fixed assets		1,169	1,102
Purchase of fixed asset investments		(292)	(220)
Sale of fixed asset investments		145	14
		(13,025)	(9,334)
<b>Acquisitions and disposals</b>			
Purchase of shares in subsidiary undertakings		—	(1,348)
Purchase of subsidiary undertakings	29	(44,264)	—
Net cash acquired	29	2	—
Cash received on sale of subsidiary undertakings		—	46,394
Net overdrafts transferred		—	11,390
		(44,262)	56,436
<b>Equity dividends paid</b>		(5,930)	(5,097)
<b>Net cash (outflow)/inflow before management of liquid resources and financing</b>		(36,369)	52,945
<b>Management of liquid resources</b>			
Increase in cash deposits treated as liquid resources	20	(1,800)	(35,000)
<b>Financing</b>			
Issue of ordinary shares		273	1,383
Issue of shares to minority shareholders		149	—
Repayment of loans		(7,986)	(12,265)
New loans		35,689	—
Principal payments under finance leases		(766)	(698)
Decrease in financing of trade debtors		—	(169)
		27,359	(11,749)
<b>(Decrease)/increase in cash in the period</b>	31	(10,810)	6,196

# Accounting Policies

for the year ended 3 October 1998

## Basis of accounting

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies which have been applied consistently is set out below. The financial statements are prepared on the historical cost basis, modified by the inclusion of certain fixed assets at valuation.

## Accounting period

The company's accounting period ends on the Saturday nearest to 30 September each year. The period ended 3 October 1998 consisted of 53 weeks (1997 52 weeks).

## Changes in presentation of financial information

FRS 9 'Associates and Joint Ventures' requires additional disclosures regarding associates and joint ventures. The new standard came into effect for all accounting periods ended on or after 23 June 1998. The new disclosure requirements have been adopted and investments are now analysed between joint ventures, associates and other investments in notes 4 and 15. The comparative balances have been adjusted to provide a similar analysis.

## Consolidation

The consolidated financial statements include the financial statements of all Group undertakings and the Group's share of profits less losses of associated companies. Goodwill arising on consolidation is set off against Group reserves in the year of acquisition. In the event of a disposal, goodwill is charged to the profit and loss account as part of the profit or loss on that disposal.

Assets and liabilities of subsidiaries acquired during the year are recorded at their fair value reflecting their condition at the date of acquisition. All changes to those assets and liabilities, and the resulting gains and losses, that arise after the Group has gained control of the subsidiary are charged to the post-acquisition profit and loss account.

## Research and development

All research and development costs are written off in the year in which they are incurred.

## Pensions and other post retirement benefits

The UK Group undertakings participate in a defined benefit pension scheme. The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme. The cost of providing other post-retirement benefits is recognised on a basis similar to that adopted for pensions.

## Tangible fixed assets

Tangible fixed assets are stated at cost or valuation less amounts provided for depreciation. No depreciation is provided on freehold land where its value can be separately ascertained. In all other cases freehold properties are depreciated on a straight line method at 2% per annum. Leasehold properties are amortised by equal annual instalments over 50 years or the life of the lease, if shorter. Plant and machinery are depreciated on the straight line method at rates varying between 6% and 50% per annum.

## 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.

# Accounting Policies Continued

for the year ended 3 October 1998

## Exchange rates

Assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange at the balance sheet date or the rate of exchange at which the transaction is contracted to be settled in the future. Profit and loss accounts of foreign Group undertakings are translated at average rates of exchange. Balance sheets are translated at year end rates. Exchange profits and losses arising from these translations and on foreign currency borrowings relating to overseas investments are taken to reserves and reported in the consolidated statement of total recognised gains and losses. Other exchange differences are taken to the profit and loss account.

## Fixed asset investments

Investments in associated undertakings are stated at the Group's share of net assets at cost. The Group's share of the profits of associated undertakings is included in the profit and loss account.

For investments in joint ventures, the Group's share of the aggregate gross assets and liabilities of the investment is included in the balance sheet and the Group's share of the profit/(loss) of the joint venture is included in the profit and loss account.

Investments in Group undertakings are stated at cost less amounts written off to reflect any permanent diminution in value.

## Leased assets

Assets which are the subject of finance lease agreements, which transfer to the Group substantially all the benefits and risks of ownership of the assets, are dealt with as tangible assets and equivalent liabilities at the cost of outright purchase. Rentals are apportioned between reduction of the liabilities and finance charges, calculated on a reducing balance basis over the primary lease period. Operating lease rentals are charged against profit over the term of the lease on a straight line basis.

## Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value. In the case of manufactured products, cost includes all direct expenditure and production overheads based on a normal level of activity. Where necessary, provision is made for obsolete, slow moving and defective stocks.

## Turnover

Turnover, which excludes value added tax, sales between Group companies and trade discounts, represents the invoiced value of goods and services supplied.

# Notes to the Financial Statements

for the year ended 3 October 1998

## 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 £20,766,000 (1997 £12,319,000).

## 2. Segmental Information

(a) External sales by destination:

	Continuing activities £'000	1998 Acquisitions £'000	Total £'000
United Kingdom	58,965	4,060	63,025
Other European	64,858	3,162	68,020
North America	121,819	8,144	129,963
Rest of World	5,889	188	6,077
	<b>251,531</b>	<b>15,554</b>	<b>267,085</b>
	Continuing activities £'000	1997 Discontinued activities £'000	Total £'000
United Kingdom	53,828	24,325	78,153
Other European	72,674	10,417	83,091
North America	119,355	2,486	121,841
Rest of World	6,091	1,472	7,563
	<b>251,948</b>	<b>38,700</b>	<b>290,648</b>

# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 2. Segmental Information Continued

(b) By origin:

	1998			1997		
	External sales £'000	Operating profit £'000	Operating net assets £'000	External sales £'000	Operating profit £'000	Operating net assets £'000
<b>Continuing activities</b>						
United Kingdom	97,130	4,777	25,008	99,907	5,305	23,156
Other European	36,291	2,435	13,476	34,080	2,066	12,337
North America	118,110	12,149	35,664	117,961	12,022	45,636
	251,531	19,361	74,148	251,948	19,393	81,129
Exceptional items – United Kingdom	–	–	–	–	(4,000)	(3,585)
	251,531	19,361	74,148	251,948	15,393	77,544
<b>Acquisitions</b>						
United Kingdom	6,629	701	4,730	–	–	–
Other European	–	–	–	–	–	–
North America	8,925	2,289	7,131	–	–	–
	15,554	2,990	11,861	–	–	–
<b>Discontinued activities</b>						
United Kingdom	–	–	–	33,332	701	–
Other European	–	–	–	5,368	(256)	–
North America	–	–	–	–	–	–
	–	–	–	38,700	445	–
<b>Total</b>	<b>267,085</b>	<b>22,351</b>	<b>86,009</b>	<b>290,648</b>	<b>15,838</b>	<b>77,544</b>

Inter segmental sales are not material.

# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 2. Segmental Information Continued

### (c) By business sector:

	1998			1997		
	External sales £'000	Operating profit £'000	Operating net assets £'000	External sales £'000	Operating profit £'000	Operating net assets £'000
<b>Continuing activities</b>						
Automotive Components	189,468	15,039	57,703	175,194	12,287	60,403
Technical Products	62,063	4,322	16,445	76,754	7,106	20,726
	251,531	19,361	74,148	251,948	19,393	81,129
<b>Exceptional items</b>						
Automotive Components	—	—	—	—	(700)	(519)
Technical Products	—	—	—	—	(3,300)	(3,066)
	—	—	—	251,948	15,393	77,544
<b>Acquisitions</b>						
Automotive Components	6,629	701	4,730	—	—	—
Technical Products	8,925	2,289	7,131	—	—	—
	15,554	2,990	11,861	—	—	—
<b>Discontinued activities</b>						
Tyres and processed materials	—	—	—	38,700	445	—
<b>Total</b>	<b>267,085</b>	<b>22,351</b>	<b>86,009</b>	<b>290,648</b>	<b>15,838</b>	<b>77,544</b>

Inter segmental sales are not material.

### (d) Reconciliation of operating net asset analysis

	1998 £'000	1997 £'000
Consolidated balance sheet	82,831	108,567
Borrowings	45,745	18,801
Interest bearing bank deposits	(42,567)	(49,824)
<b>Operating net assets</b>	<b>86,009</b>	<b>77,544</b>

### (e) Employees

The number of employees during the year was:

	1998		1997	
	Year end	Average	Year end	Average
Automotive Components	3,634	3,580	3,542	3,506
Technical Products	1,513	1,458	1,436	1,425
Tyres and processed materials	—	—	—	603
<b>Total</b>	<b>5,147</b>	<b>5,038</b>	<b>4,978</b>	<b>5,534</b>



# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 3. Cost of sales and other operating income and expenses

	1998		
	Continuing activities £'000	Acquisitions £'000	Total £'000
<b>Turnover</b>	<b>251,531</b>	<b>15,554</b>	<b>267,085</b>
Cost of sales	(204,948)	(11,226)	(216,174)
<b>Gross profit</b>	<b>46,583</b>	<b>4,328</b>	<b>50,911</b>
Distribution costs	(5,024)	(110)	(5,134)
Administrative expenses	(23,112)	(1,236)	(24,348)
Other operating income	888	8	896
<b>Net operating expenses</b>	<b>(27,248)</b>	<b>(1,338)</b>	<b>(28,586)</b>
Share of profits of joint ventures and associates	26	—	26
<b>Operating profit</b>	<b>19,361</b>	<b>2,990</b>	<b>22,351</b>

	1997		
	Continuing activities £'000	Discontinued activities £'000	Total £'000
<b>Turnover</b>	<b>251,948</b>	<b>38,700</b>	<b>290,648</b>
Cost of sales	(205,140)	(34,326)	(239,466)
<b>Gross profit</b>	<b>46,808</b>	<b>4,374</b>	<b>51,182</b>
Distribution costs	(5,061)	(2,345)	(7,406)
Administrative expenses (including £4,000,000 exceptional expenses)	(27,024)	(2,058)	(29,082)
Other operating income	590	474	1,064
<b>Net operating expenses</b>	<b>(31,495)</b>	<b>(3,929)</b>	<b>(35,424)</b>
Share of profits of joint ventures and associates	80	—	80
<b>Operating profit</b>	<b>15,393</b>	<b>445</b>	<b>15,838</b>

# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 4. Joint ventures and associates

	1998 £'000	1997 £'000
Share of operating loss in joint venture	(107)	—
Share of operating profit in associate	133	80
	26	80

The Group's share of the turnover of the joint venture was £19,000 (1997 nil).

	Share Capital	Held by the Group	Accounting Date	Basis of Consolidation
<b>Joint Venture:</b>				
Gold Seal-Avon Polymers PVT India	4,403,596 shares of 10 rupees each	50%	31 March	Unaudited accounts to 3 October 1998
<b>Associate:</b>				
Ames-Avon Industries USA	2,000 shares of nil par value	49%	31 December	Audited accounts for 1997 Unaudited accounts to 3 October 1998

## 5. Exceptional items

On 24 July 1998 the Group disposed of a 10% holding in Avon Marine Limited, resulting in a loss of £275,000.

On 30 September 1998 the Group sold property, previously written down to zero, for £1,150,000 resulting in a profit after costs of £993,000.

The exceptional profit on sale of operations in 1996/97 refers to the net gain on disposal of the Tyres Division, after associated costs and goodwill previously written off to reserves. Exceptional operating expenses of £4,000,000 in 1996/97 represented the estimated costs of relocating businesses from the Cooper-Avon site in Melksham as a consequence of the sale.

## 6. Net interest receivable/(payable) and similar charges

	1998 £'000	1997 £'000
Bank loans and overdrafts	(2,036)	(1,918)
US Dollar private placement	(448)	—
Other loans	(327)	(616)
	(2,811)	(2,534)
On finance leases	(165)	(225)
	(2,976)	(2,759)
Interest receivable	3,850	2,233
	874	(526)
Share of interest cost in joint venture	(38)	—
	836	(526)

# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 7. Profit on ordinary activities before taxation

	1998 £'000	1997 £'000
<b>Profit on ordinary activities before taxation is stated after crediting:</b>		
Rent receivable	98	84
<b>and after charging:</b>		
Depreciation for the year on tangible fixed assets:		
owned assets	8,006	9,356
leased assets	865	1,144
Provision for permanent diminution in value of fixed assets	—	213
Auditors' remuneration for:		
Audit (Company £40,000; 1997 £38,000)	250	295
Other services to UK members of the Group including taxation	438	510
Research and development	4,610	5,784
Operating leases:		
plant and machinery	1,852	2,590
other assets	1,305	1,108
Loss/(gain) on foreign exchange	70	(130)

Non-audit fees paid to PricewaterhouseCoopers and its associates (being the predecessor partnerships of Price Waterhouse and Coopers & Lybrand) during the year were £438,000 of which £237,000 related to work done by Coopers & Lybrand, previous auditors, and its associates. Of the non-audit fees paid to PricewaterhouseCoopers, £191,000 was for work which was contracted with Price Waterhouse before their merger with Coopers & Lybrand. Non-audit fees in the year ended 27 September 1997 comprises solely amounts paid to Coopers & Lybrand.

## 8. Taxation

	1998 £'000	1997 £'000
<b>The taxation charge, based on the results for the year, comprises:</b>		
<b>Tax charge on operating activities:</b>		
United Kingdom corporation tax at 31% (1997 32%)	1,981	1,580
Overseas taxes	5,077	5,157
Joint venture	—	—
Associated company	51	13
	7,109	6,750
Deferred taxation	(106)	90
	7,003	6,840
<b>Tax charge on exceptional items:</b>		
United Kingdom corporation tax at 31% (1997 32%)	—	224

The corporation tax charge for the year is reduced by an excess of capital allowances over depreciation of £510,000 (1997 £1,006,000).

# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 8. Taxation Continued

An analysis of provided and unprovided deferred tax at 31% (1997 31%) is shown below:

	Amount provided		Amount unprovided	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Capital allowances	(89)	(15)	(5,493)	(4,624)
Pension deferral	—	41	—	(24)
Post retirement healthcare	834	769	—	—
Other timing differences	(18)	68	1,326	899
Losses	—	—	159	156
<b>Asset/(potential liability)</b>	<b>727</b>	<b>863</b>	<b>(4,008)</b>	<b>(3,593)</b>

In addition to the above there are losses of £522,000 (1997 £945,000) (in terms of tax) available for carry forward.

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 in the foreseeable future that such profits will be remitted.

## 9. Dividends

	1998 £'000	1997 £'000
Dividends on equity shares:		
Ordinary – Interim paid of 6.6p per share (1997 6.15p per share)	1,815	1,660
Ordinary – Final proposed of 16.2p per share (1997 15.0p per share)	4,458	4,115
	<b>6,273</b>	<b>5,775</b>
Dividends on non-equity shares:		
Preference 4.9% paid (1997 4.9%)	25	25
	<b>6,298</b>	<b>5,800</b>

## 10. Earnings per share

Earnings per share amount to 62.4p (1997 70.8p) and are based on profit after taxation, and after deduction of minority interests, and non-equity dividends, of £17,131,000 (1997 £19,189,000) and 27,454,000 ordinary shares (1997 27,114,000) being the weighted average of the shares in issue during the year and ranking for dividend.

Earnings per share on all activities before exceptional items amount to 59.8p (1997 45.6p) and are based on a profit after taxation, and after deduction of minority interests, and non-equity dividends, of £16,413,000 (1997 £12,366,000).

Adjusted earnings per share figures have been calculated in addition to the overall figure since, in the opinion of the directors, this gives a better understanding of the Group's performance. A reconciliation of the different earnings per share is shown below.

	1998	1997
Basic earnings per share	62.4p	70.8p
Adjustment for exceptional items	(2.6p)	(25.2p)
Earnings per share on all activities before exceptional items	59.8p	45.6p
Adjustment for discontinued activities	—	1.7p
Earnings per share on continuing activities before exceptional items	59.8p	47.3p

# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 11. 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.

Pension cost for the year ended 3 October 1998 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% (1997 2.5%) higher than the annual increase in pensionable remuneration and 4% (1997 4%) higher than the annual increase in present and future pensions in payment. The pension cost to the Group in the year ended 3 October 1998 in respect of UK employees was £1,152,000 (1997 £2,727,000). The decrease in pension costs this year reflects the sale of the Tyres division in 1997. A prepayment of £1,951,000 (1997 £546,000) is included in the Group balance sheet representing the excess of the amount funded over the accumulated pension cost.

For employees overseas, pension arrangements are principally defined contribution plans. The cost to the Group in the year ended 3 October 1998 in respect of overseas employees was £2,015,000 (1997 £1,774,000).

### 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 3 October 1998 is £125,000 (1997 £238,000), and the accrued liability of £2,537,000 (1997 £2,571,000) is included in provisions for liabilities and charges.

## 12. Directors & employees

Detailed disclosures of directors' remuneration and share options are given in the Report of the Remuneration Committee on pages 26 to 29. During the year two directors exercised options granted under the Savings Related Share Option scheme. No share options were exercised by any director in the year ended 27 September 1997. The aggregate of the gains made on the exercise of these options, calculated on the difference between the option price and the mid-market price at the date of exercise, was £32,000, of which £23,000 related to the gains attributable to the highest paid director.

	1998 £'000	1997 £'000
Staff costs during the year were:		
Wages and salaries	76,744	82,919
Social security costs	8,052	8,210
Other pension costs	3,505	4,623
	<b>88,301</b>	<b>95,752</b>

# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 13. Tangible fixed assets – Group

	Freeholds £'000	Long leaseholds £'000	Short leaseholds £'000	Plant and machinery £'000	Total £'000
<b>Cost or valuation:</b>					
At 28 September 1997	12,490	1,164	125	101,055	114,834
Exchange differences	(410)	34	(3)	(2,013)	(2,392)
Acquisitions	1,321	210	–	4,954	6,485
Additions at cost	1,475	57	8	12,973	14,513
Disposals	–	–	–	(5,414)	(5,414)
<b>At 3 October 1998</b>	<b>14,876</b>	<b>1,465</b>	<b>130</b>	<b>111,555</b>	<b>128,026</b>
At Cost	4,134	665	130	111,555	116,484
At Valuation	10,742	800	–	–	11,542
	<b>14,876</b>	<b>1,465</b>	<b>130</b>	<b>111,555</b>	<b>128,026</b>
<b>Depreciation:</b>					
At 28 September 1997	964	70	71	56,656	57,761
Exchange differences	(133)	(4)	(3)	(685)	(825)
For the year	584	53	7	8,227	8,871
On disposals	–	–	–	(5,189)	(5,189)
<b>At 3 October 1998</b>	<b>1,415</b>	<b>119</b>	<b>75</b>	<b>59,009</b>	<b>60,618</b>
<b>Net book value at 3 October 1998</b>	<b>13,461</b>	<b>1,346</b>	<b>55</b>	<b>52,546</b>	<b>67,408</b>
Net book value at 27 September 1997	11,526	1,094	54	44,399	57,073
				1998 £'000	1997 £'000
<b>Net book value comprises:</b>					
Owned assets				63,028	52,409
Leased assets				4,380	4,664
				<b>67,408</b>	<b>57,073</b>

Group properties were valued independently as at 27 September 1997 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	16,663	992	130
Depreciation	4,846	237	75
<b>Net book value at 3 October 1998</b>	<b>11,817</b>	<b>755</b>	<b>55</b>
Net book value at 27 September 1997	9,894	353	54

# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 14. Tangible fixed assets – Parent

	Freeholds £'000	Long leaseholds £'000	Plant and machinery £'000	Total £'000
<b>Cost or valuation:</b>				
At 28 September 1997	1,297	800	1,636	3,733
Additions at cost	–	–	253	253
Disposals	–	–	(179)	(179)
<b>At 3 October 1998</b>	<b>1,297</b>	<b>800</b>	<b>1,710</b>	<b>3,807</b>
At Cost	–	–	1,710	1,710
At Valuation	1,297	800	–	2,097
	<b>1,297</b>	<b>800</b>	<b>1,710</b>	<b>3,807</b>
<b>Depreciation:</b>				
At 28 September 1997	406	24	1,222	1,652
For the year	27	24	154	205
On disposals	–	–	(146)	(146)
<b>At 3 October 1998</b>	<b>433</b>	<b>48</b>	<b>1,230</b>	<b>1,711</b>
<b>Net book value at 3 October 1998</b>	<b>864</b>	<b>752</b>	<b>480</b>	<b>2,096</b>
Net book value at 27 September 1997	891	776	414	2,081
			1998 £'000	1997 £'000
<b>Net book value comprises:</b>				
Owned assets			1,344	1,305
Leased assets			752	776
			<b>2,096</b>	<b>2,081</b>

Group properties were valued independently as at 27 September 1997 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
Cost	1,194	327
Depreciation	273	166
<b>Net book value at 3 October 1998</b>	<b>921</b>	<b>161</b>
Net book value at 27 September 1997	960	168

# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 15. Fixed asset investments – Group

	1998 £'000	1997 £'000		
Investments in joint ventures:				
shares of joint assets	724	617		
shares of joint liabilities	(558)	(233)		
Investments in associates	543	646		
Other investments	292	420		
	1,001	1,450		
	Joint venture £'000	Associated company £'000	Other investments other than loans £'000	Total £'000
Unlisted shares at cost, less amount written off:				
At 28 September 1997	384	168	420	972
Addition: Longbore Inc.	—	—	292	292
Disposal: Avon Marine Limited	—	—	(420)	(420)
Exchange differences	—	(10)	—	(10)
<b>At 3 October 1998</b>	<b>384</b>	<b>158</b>	<b>292</b>	<b>834</b>
Group share of profits less losses:				
At 28 September 1997	—	478	—	478
Exchange differences	(73)	(26)	—	(99)
For the year	(145)	82	—	(63)
Dividend received	—	(149)	—	(149)
<b>At 3 October 1998</b>	<b>(218)</b>	<b>385</b>	<b>—</b>	<b>167</b>
<b>Net book value at 3 October 1998</b>	<b>166</b>	<b>543</b>	<b>292</b>	<b>1,001</b>
Net book value at 27 September 1997	384	646	420	1,450

## 16. Fixed asset investments – Parent

	Unlisted shares at cost less amounts written off £'000	Loan to Group Undertaking £'000	Total £'000
At 28 September 1997	82,585	12,455	95,040
Exchange Rate movement	–	(745)	(745)
<b>Net book value at 3 October 1998</b>	<b>82,585</b>	<b>11,710</b>	<b>94,295</b>

The company and Group had a forward contract for US\$20 million outstanding at the year end, maturing in more than one year, in order to hedge the loan to the Group undertaking.

A list of Group undertakings appears on page 58.



# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 17. Other financial commitments

	Group		Parent	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Capital expenditure committed	8,959	1,444	—	—

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:

	1998		1997	
	Land and buildings	Other assets	Land and buildings	Other assets
	£'000	£'000	£'000	£'000
<b>For leases expiring:</b>				
Within 1 year	—	140	—	327
In 2–5 years	661	431	238	338
Over 5 years	430	120	807	10
	<b>1,091</b>	<b>691</b>	<b>1,045</b>	<b>675</b>

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 (1997 £68,000).

## 18. Stocks

	Group	
	1998	1997
	£'000	£'000
Raw materials	7,243	6,735
Work in progress	5,497	5,619
Finished goods	8,704	7,870
	<b>21,444</b>	<b>20,224</b>

# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 19. Debtors

	Group		Parent	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
<b>Amounts falling due within one year:</b>				
Trade debtors	41,939	39,483	174	178
Group undertakings	—	—	4,515	815
Undertakings in which the Group has a participating interest	38	235	—	—
Advance corporation tax recoverable	888	563	888	563
Corporation tax	828	1,973	14	980
Other debtors	4,256	4,502	1,543	1,357
Prepayments	553	1,197	17	47
	<b>48,502</b>	<b>47,953</b>	<b>7,151</b>	<b>3,940</b>
<b>Amounts falling due after more than one year:</b>				
Deferred tax	834	978	—	—
Advance corporation tax recoverable	1,115	—	1,115	—
Other debtors	1,519	1,497	—	—
Pension fund prepayment	1,951	546	105	—
	<b>5,419</b>	<b>3,021</b>	<b>1,220</b>	<b>—</b>
	<b>53,921</b>	<b>50,974</b>	<b>8,371</b>	<b>3,940</b>

## 20. Current asset investments

Current asset investments relate to short term bank deposits maturing in less than one year.

## 21. Creditors – amounts falling due within one year

	Group		Parent	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Current instalments due on loans	103	181	—	—
Bank overdrafts	2,366	817	—	—
Finance leases	666	687	—	—
<b>Total borrowings falling due within 1 year</b>	<b>3,135</b>	<b>1,685</b>	<b>—</b>	<b>—</b>
Trade creditors	24,001	19,231	476	232
Group undertakings	—	—	22,763	32,291
Bills of exchange	2,052	1,710	—	—
Advance corporation tax payable	1,115	—	1,115	—
Corporation tax	2,147	3,782	—	283
Deferred tax	17	—	—	—
Other taxation and social security	3,176	4,389	87	120
Other creditors	2,941	2,801	151	559
Accruals	12,347	10,205	1,211	728
Proposed dividend on ordinary shares	4,458	4,115	4,458	4,115
	<b>55,389</b>	<b>47,918</b>	<b>30,261</b>	<b>38,328</b>

# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 22. Creditors – amounts falling due after more than one year

	Group		Parent	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Bank loans (secured £310,000 1997 £343,000)	6,631	15,001	1,067	1,052
US Dollar private placement	34,609	–	–	–
Finance leases up to 5 years	1,349	2,013	–	–
Finance leases over 5 years	21	102	–	–
Total borrowings falling due after more than one year	42,610	17,116	1,067	1,052
Other creditors	865	983	–	–
Deferred tax	89	262	–	–
	43,564	18,361	1,067	1,052

### Borrowings – Group

	1998		1997	
	Bank overdrafts and loans £'000	Other borrowings £'000	Bank overdrafts and loans £'000	Other borrowings £'000
In 1 year or less, or on demand	2,469	666	998	687
Between 1 and 2 years	1,132	731	102	735
Between 2 and 5 years	5,499	618	8,662	1,278
Over 5 years	34,609	21	6,237	102
	43,709	2,036	15,999	2,802
Total borrowings		45,745		18,801

Revolving banking facilities form a major part of the loans falling due for repayment between two and five years. A dollar denominated loan of \$60 million (1997 nil) has been translated at the year end exchange rate and is included in loans maturing in over 5 years at £34,609,000 (1997 nil). The carrying value of the loan is net of issue costs amounting to £522,000 which are being amortised over the loan term. This loan provides a hedge against the Group's investments in dollar denominated net assets.

### Borrowings – Parent

	1998 £'000	1997 £'000
Bank loans due between 1 and 2 years	1,067	–
Bank loans due between 2 and 5 years	–	1,052

### (Borrowings)/Net Funds – Group

	1998 £'000	1997 £'000
Total borrowings as above	(45,745)	(18,801)
Cash at bank and in hand	6,473	16,281
Bank deposits treated as current asset investments	36,800	35,000
(Borrowings)/net funds	(2,472)	32,480

# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 23. Provision for liabilities and charges – Group

	Post retirement benefits £'000	Other £'000	Total £'000
Balance at 28 September 1997	2,571	3,585	6,156
Charged to profit and loss account	125	–	125
Payments in the year	–	(859)	(859)
Exchange differences	(159)	–	(159)
<b>Balance at 3 October 1998</b>	<b>2,537</b>	<b>2,726</b>	<b>5,263</b>

Other provisions at 3 October 1998 of £2,726,000 are in respect of the relocation of our Technical Products and Automotive Components businesses currently based on the Cooper-Avon site in Melksham, Wiltshire.

## 24. Provision for liabilities and charges – Parent

	Pension deferral £'000
Balance at 28 September 1997	12
Charged to the profit and loss account	74
Payments in the year	(191)
Reclassified as pension fund prepayment	105
<b>Balance at 3 October 1998</b>	<b>–</b>

## 25. Contingent liabilities

	Group		Parent	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Guarantees of overdraft facilities and loans of Group undertakings	–	–	44,060	17,219
Other guarantees	573	836	–	–
	<b>573</b>	<b>836</b>	<b>44,060</b>	<b>17,219</b>

The company and certain subsidiaries have unconditionally guaranteed the liabilities of Avon Rubber & Plastics Inc in respect of its US\$60,000,000 private debt placement.

# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 26. Share capital

	1998 £'000	1997 £'000
<b>Authorised:</b>		
37,900,000 ordinary shares of £1 each	37,900	37,900
500,000 4.9% cumulative preference shares of £1 each	500	500
	<b>38,400</b>	<b>38,400</b>
<b>Called up, allotted and fully paid:</b>		
27,718,000 ordinary shares of £1 each	27,718	27,434
500,000 4.9% cumulative preference shares of £1 each	500	500
	<b>28,218</b>	<b>27,934</b>
	<b>1998</b>	<b>1997</b>
During the year the following ordinary shares were issued pursuant to the:		
Executive Share Option scheme	—	40,000
Savings Related Share Option schemes	45,528	397,706
Scrip dividend facility	—	44,209
Qualifying Employee Share Ownership Trust	238,559	—
	<b>284,087</b>	<b>481,915</b>

Shares issued under the Savings Related Share Option scheme were satisfied by total cash consideration of £140,000. A further 238,559 ordinary shares have been issued to a Qualifying Employee Share Ownership Trust (QUEST) which have been funded by contributions from the company totalling £1,410,000 and a further £133,000 from employees. At 3 October 1998, QUEST held 201,110 ordinary shares in the company at a market value of £4.05 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 4.9% 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 page 29.

# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 27. Share premium account and reserves – Group

	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000
At 28 September 1997	32,243	2,411	43,203
Transfer from revaluation reserve to profit and loss	–	324	(324)
Premium on shares issued during the year	1,399	–	–
Contribution to a Qualifying Employee Share Ownership Trust (see Note 26)	–	–	(1,410)
Unrealised exchange differences			
on overseas investments	–	–	(1,253)
on related borrowings	–	–	(15)
Current year retained profit	–	–	10,858
Goodwill written off (see Note 29)	–	–	(35,249)
<b>At 3 October 1998</b>	<b>33,642</b>	<b>2,735</b>	<b>15,810</b>
Avon Rubber p.l.c. and subsidiaries	33,642	2,735	15,643
Joint ventures and associated companies	–	–	167
	<b>33,642</b>	<b>2,735</b>	<b>15,810</b>

## 28. Share premium account and reserves – Parent

	Share premium account £'000	Merger reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
At 28 September 1997	32,243	16,439	409	20,517
Transfer from revaluation reserve to profit and loss	–	–	324	(324)
Premium on shares issued during the year	1,399	–	–	–
Contribution to a Qualifying Employee Share Ownership Trust (see Note 26)	–	–	–	(1,410)
Unrealised exchange differences	–	–	–	(15)
Current year retained profit	–	–	–	14,468
<b>At 3 October 1998</b>	<b>33,642</b>	<b>16,439</b>	<b>733</b>	<b>33,236</b>

# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 29. Acquisitions

On 1 December 1997 the Group acquired the business, tangible fixed assets and inventory of Zatec Inc. The total cost of the acquisition was £8,447,000, including £266,000 of acquisition expenses. Goodwill of £7,535,000 has been written off direct to reserves.

On 18 March 1998 the Group purchased Cow Polymers Limited for £10,559,000, representing £2,001,000 for the entire share capital and £8,299,000 for the settlement of company borrowings at acquisition, in addition to acquisition expenses of £259,000 which were incurred. Goodwill of £6,772,000 has been written off direct to reserves.

On 9 April 1998 the Group acquired the ongoing business, operating assets and certain liabilities of Hi-Life Rubber USA Inc. and Milk-Rite USA Inc. (together "Hi-Life") for a total cost of £22,034,000 including acquisition expenses of £527,000. Goodwill of £17,727,000 has been written off direct to reserves.

On 24 September 1998 the Group acquired the business, tangible fixed assets and inventory of Nylaflo, which was formerly part of DSM Inc., for a total cost of £4,191,000, including acquisition expenses of £117,000. Goodwill of £3,215,000 has been written off direct to reserves.

All of the acquisitions have been accounted for using acquisition accounting.

In aggregate the fair values of the net assets relating to the above acquisitions were as follows:

	Hi-Life net assets acquired £'000	Other net assets acquired £'000	Total net assets acquired £'000	Fair value adjustment £'000	Fair value of net assets acquired £'000
Tangible fixed assets	2,094	4,545	6,639	(154)	6,485
Intangible fixed assets	—	20	20	(20)	—
Stocks	916	1,096	2,012	—	2,012
Debtors	1,388	2,031	3,419	—	3,419
Creditors	(91)	(1,645)	(1,736)	(200)	(1,936)
Cash	—	2	2	—	2
	4,307	6,049	10,356	(374)	9,982
Goodwill	17,727	17,522	35,249	—	35,249
Total acquisition cost (including acquisition expenses of £1,169,000)	22,034	23,571	45,605	(374)	45,231
Deferred consideration					(967)
Cash paid					44,264

Deferred consideration represents amounts payable, under the terms of purchase agreements, to meet the ongoing costs of the vendors in transferring businesses.

The directors have considered the fair value of the assets and liabilities acquired. Except for Cow Polymers Limited the book values were not considered materially different to fair value. The fair value adjustments made in respect of Cow Polymers Limited are:

	Revaluation £'000	Alignment of ac'ting policies £'000	Other £'000	Total £'000
Leasehold improvements	(154)	—	—	(154)
Write off of intangible assets	—	(20)	—	(20)
Liabilities under overseas agency agreements	—	—	(100)	(100)
Lease obligations	—	—	(100)	(100)
	(154)	(20)	(200)	(374)

The cumulative goodwill resulting from acquisitions, which has been written off to reserves, after deducting goodwill attributable to subsidiary undertakings disposed of, is set out below:

	£'000
At 28 September 1997	43,955
Written off in the year	35,249
At 3 October 1998	79,204

# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 29. Acquisitions Continued

The summarised profit and loss account of Hi-Life Inc. for the period from 1 January 1998, the beginning of the subsidiary's financial year, to the date of acquisition was as follows:

	3 month period ended 9 April 1998 £'000
Turnover	2,807
Profit on ordinary activities before taxation	789
Tax on ordinary activities	—
<b>Profit on ordinary activities after taxation</b>	<b>789</b>

The company had no recognised gains or losses other than the profit on ordinary activities after taxation shown above. The profit on ordinary activities after tax for the year ended 31 December 1997 was £2,681,000. The directors do not consider that the other acquisitions are individually material to the results.

The above acquisitions contributed £2,786,000 to the Group's net operating cash flows, paid £155,000 in respect of taxation, £1,329,000 in respect of capital expenditure, and nil in respect of returns on investments and servicing of finance.

## 30. Net cash flow from operating activities

	1998 £'000	1997 £'000
Operating profit	22,351	15,838
Depreciation of tangible fixed assets	8,871	10,713
Loss/(profit) on sale of tangible fixed assets	49	(86)
Loss on sale of fixed asset investment	—	54
Decrease/(increase) in stocks	792	(1,892)
Decrease/(increase) in debtors	536	(8,534)
Increase in creditors	2,758	1,285
Increase in pension prepayment	(1,405)	(1,378)
Share of operating profits of joint ventures and associates	(26)	(80)
(Decrease)/increase in provisions	(894)	3,824
Effect of foreign exchange rate changes	61	(157)
<b>Net cash flow from operating activities</b>	<b>33,093</b>	<b>19,587</b>

## 31. Reconciliation of net cash flow to movement in net funds/(net debt)

	1998 £'000	1997 £'000
(Decrease)/increase in cash	(10,810)	6,196
Movements in loans and finance leases	(26,937)	13,132
Movement in liquid resources	1,800	35,000
Cash acquired from acquisitions	2	—
Loans and finance leases transferred on sale of subsidiaries	—	8,425
Exchange differences	993	1,834
<b>Movement in net debt in the period</b>	<b>(34,952)</b>	<b>64,587</b>
<b>(Net debt)/net funds at the beginning of the year</b>	<b>32,480</b>	<b>(32,107)</b>
<b>(Net debt)/net funds at the end of the year</b>	<b>(2,472)</b>	<b>32,480</b>



# Notes to the Financial Statements Continued

for the year ended 3 October 1998

## 32. Analysis of net funds/(net debt)

	At 28 Sept 1997 £'000	Reclassified £'000	Cash flow £'000	Exchange movements £'000	Acquisitions £'000	At 3 Oct 1998 £'000
Cash in bank and in hand	16,281	—	(9,339)	(471)	2	6,473
Overdrafts	(817)	—	(1,471)	(78)	—	(2,366)
Debt due after 1 year	(15,001)	98	(27,877)	1,540	—	(41,240)
Debt due within 1 year	(181)	(98)	174	2	—	(103)
Finance leases	(2,802)	—	766	—	—	(2,036)
Current asset investments (see Note 20)	35,000	—	1,800	—	—	36,800
	32,480	—	(35,947)	993	2	(2,472)

## 33. Cash flow relating to exceptional items

During the year ended 3 October 1998, the Group received £993,000 and £145,000 following the sale of property and a fixed asset investment respectively. These are included in the cash flow statement within capital expenditure and financial investment.

## 34. Related party transactions

There were no material related party transactions during the year.

# Group Undertakings and Participating Interests

at 3 October 1998

	Group interest	Country in which incorporated
<b>Held by Parent Company</b>		
Avon Polymer Products Limited		
Avon Rubber Overseas Limited		
Avon Rubber Pension Trust Limited		
<b>Held by Group Undertakings</b>		
Avon Automotive Deutschland GmbH		Germany
Avon Caoutchouc SA		France
Avon Hi-Life Inc.		USA
Avon Injected Rubber and Plastics Inc.		USA
Avon Milk-Rite Inc.		USA
Avon Polymères France SA		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 SA		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		
CQC PLC		
CT Rubber and Plastics Inc.	60%	USA
Nova Insurance Limited		Guernsey
Pacer Tool and Plastics Inc.		USA
<b>Undertakings in which the Group has a participating interest</b>		
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, CQC PLC, Nova Insurance Limited and Longbore Inc. are, respectively, a pension fund trustee, a manufacturer of specialised textile products, an insurer and a pollution remediation contractor. Avon Rubber Overseas Limited, Avon Caoutchouc SA, 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.

# Shareholders Information

## Shareholders

On 3 December 1998 the company had the following number of shareholders:

£1 ordinary shares: 1,675

4.9% cumulative preference shares of £1 each: 35

Of the ordinary shareholders, 1,036 (61.8%) had holdings of 1,000 shares or less.

## Financial Calendar

Interim figures announced in May and final results in December.

Preference dividend paid on 30 June and 31 December.

Interim ordinary dividend declared in May and paid in July.

Final ordinary dividend announced, together with the results for the year, in December and paid in January.

Annual General Meeting held in January.

## Corporate Information

<b>Registered Office</b>	Manvers House, Kingston Road, Bradford-on-Avon, Wiltshire, BA15 1AA England Registered in England and Wales No. 32965
<b>Company Secretary</b>	C.L. Martin
<b>Auditors</b>	PricewaterhouseCoopers
<b>Registrars &amp; Transfer Office</b>	KPMG, Festival Way Stoke on Trent Staffordshire ST1 5TA
<b>Brokers</b>	Cazenove & Co
<b>Solicitors</b>	Linklaters & Paines
<b>Principal Bankers</b>	Barclays Bank plc Comerica Inc. Midland Bank plc Societe Generale
<b>Corporate Financial Advisors</b>	Baring Brothers International Limited
<b>Corporate web site</b>	<a href="http://www.avon-rubber.com">www.avon-rubber.com</a>

Share price information can be obtained on the Financial Times Cityline service by dialling 0336-431713.

# Five Year Record

	1998 £'000	1997 £'000	1996 £'000	1995 £'000	1994 £'000
Turnover	267,085	290,648	347,471	306,467	280,247
Profit on trading	31,196	30,471	38,250	31,225	26,336
Share of profits of joint venture and associated company	26	80	184	255	331
Depreciation	31,222 (8,871)	30,551 (10,713)	38,434 (13,330)	31,480 (11,254)	26,667 (10,918)
Operating profit before exceptional items	22,351	19,838	25,104	20,226	15,749
Reorganisation costs	—	(4,000)	—	—	—
Profit on sale of fixed assets and investments	718	—	—	—	—
Profit/(loss) on sale of interest in subsidiary undertakings	—	11,047	—	—	(4,074)
Profit before interest	23,069	26,885	25,104	20,226	11,675
Interest	836	(526)	(3,595)	(4,035)	(3,393)
Profit before taxation	23,905	26,359	21,509	16,191	8,282
Taxation	(7,003)	(7,064)	(7,096)	(5,230)	(4,039)
Profit after taxation	16,902	19,295	14,413	10,961	4,243
Minority interests	254	(81)	(800)	9	(615)
Profit attributable to Avon shareholders	17,156	19,214	13,613	10,970	3,628
Preference dividends	(25)	(25)	(25)	(25)	(25)
Ordinary dividends	(6,273)	(5,775)	(5,248)	(4,744)	(4,396)
Retained profit	10,858	13,414	8,340	6,201	(793)
Fixed assets and investments	68,409	58,523	93,391	88,251	78,105
Working capital	22,157	23,720	37,424	44,011	44,573
Provisions	(5,263)	(6,156)	(3,776)	(4,817)	(5,497)
Net funds	—	32,480	—	—	—
Assets employed	85,303	108,567	127,039	127,445	117,181
Financed by:					
Ordinary share capital	27,718	27,434	26,952	26,813	26,667
Reserves attributable to Avon shareholders	52,187	77,857	63,350	54,990	48,372
Preference share capital	500	500	500	500	500
Minority shareholders' interests	2,426	2,776	4,130	6,043	6,489
Shareholders' capital employed	82,831	108,567	94,932	88,346	82,028
Net borrowings	2,472	—	32,107	39,099	35,153
Capital employed	85,303	108,567	127,039	127,445	117,181
Earnings per share	62.4p	70.8p	50.6p	40.9p	13.6p
Dividends per share	22.8p	21.15p	19.5p	17.7p	16.5p

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 The Bath Spa Hotel, Sydney Road, Bath on Wednesday 20 January 1999 at 2.30 pm for the following purposes:

1. To receive and consider the report of the directors and the financial statements for the year ended 3 October 1998 (Resolution No. 1).
2. To declare a dividend on the ordinary shares (Resolution No. 2).
3. To re-elect directors:
  - Mr G.T.E. Priestley retires under Article 91 and, being eligible, offers himself for re-election (Resolution No. 3).
  - Mr T.K.P. Stead retires under Article 91 and, being eligible, offers himself for re-election (Resolution No. 4).
  - Mr C.P. King, CBE retires by rotation and, being eligible, offers himself for re-election (Resolution No. 5).
  - Mr S.J. Willcox retires by rotation and, being eligible, offers himself for re-election (Resolution No. 6).
4. To consider the following resolution, special notice having been received of the intention to propose the resolution as an ordinary resolution (Resolution No. 7):  
 "That PricewaterhouseCoopers be reappointed auditors of the company (having previously been appointed by the board to fill the casual vacancy arising by reason of the resignation of Coopers & Lybrand), to hold office until the conclusion of the next general meeting at which accounts are laid before the company and that their remuneration be fixed by the directors."
5. To transact any other routine business.
6. 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 authority and power conferred on the directors by Article 11 (b) of the company's Articles of Association be renewed for the period ending on the date of the annual general meeting in 2000 or on 20 April 2000, whichever is the earlier, and for such period:
  - (a) the section 80 amount shall be £9,239,486, and
  - (b) the section 89 amount shall be £1,385,922"

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  
 18 December 1998



A form of proxy is enclosed. The appointment of a proxy will not prevent an ordinary 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, KPMG Registrars, Festival Way, Stoke-on-Trent, Staffordshire ST1 5TA, not less than 48 hours before the time for holding the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned 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 (Saturdays 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 transactions 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 Resolution Nos. 3, 4, 5 and 6

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.

In this connection, the directors have taken note of 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. G.T.E. Priestley and Mr. T.K.P. Stead, who were appointed to the board during the year, will retire under Article 91 and stand for re-election (Resolution Nos. 3 and 4). Retirements under Article 91 do not, however, count towards the number of directors retiring by rotation.

In order to comply with the Articles and to follow the terms of the Combined Code with the flexibility and common sense advocated by the Code, the directors have decided, having taken advice, that it would be appropriate for Mr. C.P. King, CBE and Mr. S.J. Willcox to retire by rotation and stand for re-election this year (Resolution Nos. 5 and 6). It is the board's intention that all directors should retire and submit themselves for re-election at intervals of not more than three years.

## Explanation of Resolution No. 7

Following the merger of Coopers & Lybrand (who were re-appointed as the company's auditors at the 1998 annual general meeting) and Price Waterhouse on 1 July 1998, the directors appointed the new firm, PricewaterhouseCoopers, to fill the vacancy as auditors from 15 July 1998.

Pursuant to section 388(3)(b) of the Companies Act 1998, the Resolution proposed to reappoint PricewaterhouseCoopers as auditors cannot be effective unless "special notice" has been served on the company at least 28 days before the date of the meeting at which the resolution is proposed. Such special notice was served on the company on 30 November 1998 and, accordingly, the resolution may be validly proposed at the meeting.

## Explanation of Resolution No. 8

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 annually 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 authority referred to above was renewed at the annual general meeting in 1998 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 a relatively simple special resolution. It is therefore proposed as Resolution 8 to renew the authority to allot shares up to an aggregate nominal amount of £9,239,486 (the "section 80 amount"), being an amount equal to 33⅓% of the existing issued 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 provided that the issue to such persons would represent no more than £1,385,922 (the "section 89 amount") being 5% of the issued ordinary share capital as shown in the latest audited financial statements.

The proposed new section 80 amount and the proposed new section 89 amount have been adjusted to reflect the increase which has taken place during the year in the issued ordinary share capital as a result of employees and directors exercising their rights under the Avon Rubber p.l.c. Savings Related Share Option Scheme 1981, the Avon Rubber p.l.c. Sharesave Option Scheme 1992 and the Avon Rubber p.l.c. Executive Share Option Scheme 1986 (together "the Share Option Schemes"). 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 has been calculated accordingly.

The authority sought in Resolution 8 complies 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 2000 or 20 April 2000 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 Share Option Schemes), 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.

# Payment of dividend as Foreign Income Dividend

In the preliminary announcement of the company's results on 3 December 1998 the board announced its decision to continue to pay the final dividend as a Foreign Income Dividend ("FID"). Under current tax legislation and practice it is not possible to combine the payment of a FID with a scrip dividend and therefore on this occasion a scrip dividend alternative will not be offered to shareholders.

## Reasons for paying a FID

A substantial proportion of the company's profits are earned and taxed overseas, so that the Advance Corporation Tax ("ACT") which the company has paid on its dividends in the past has exceeded the amount which can be offset against Corporation Tax payable in the UK. This has resulted in surplus ACT.

In the light of recent changes in tax law, the board has concluded that the payment of the 1998 final dividend in the form of a FID (on which the ACT would be recoverable by the company) would be in the best interests of the company and of shareholders taken as a whole. It will both give the company a cash flow benefit and, in the longer term, reduce its exposure to the risk that surplus ACT may not be recovered.

ACT will be abolished from 6 April 1999. FID will also be abolished on the same date.

## Effects on shareholders

As stated above, a FID cannot be combined with a scrip dividend and therefore all shareholders, including those with a scrip dividend mandate in place, will receive the 1998 final dividend in cash.

The tax effects for different categories of shareholder of paying the 1998 final dividend as a FID in comparison with a conventional dividend payment are as follows:

- Pension funds will not be affected by the proposal as the Finance (No. 2) Act 1997 has already removed their ability to reclaim the tax credit on a conventional dividend.
- Standard rate tax payers will not be affected; they will have no further income tax liability.
- Higher rate taxpayers will not be affected. Individuals paying the higher rate of income tax (currently 40%) will still be deemed to have suffered tax at 20% of the grossed up amount of the dividend and they will have a liability to pay a further 20% of that figure.
- Those shareholders who have been able to reclaim the tax credit will no longer be able to do so. This will affect those whose tax liability is less than the tax credit on a conventional dividend, including investors who hold their shares in Personal Equity Plans.

The position will be essentially unchanged for dividends paid on or after 6 April 1999, but it will no longer be possible to reclaim the tax credit even in respect of a cash dividend.

The above points are only a summary and cannot take into account the individual circumstances of every shareholder. If you are uncertain as to how your tax position will be affected, you are recommended to seek professional advice.

## Policy on future dividends

The board will review legislation in force at the time of the next dividend in order to ensure the most advantageous benefit to the company and shareholders as a whole.

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