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Directors' Report
for the year ended 30 September 2007

The Directors submit the one hundred and seventeenth annual report and audited financial statements of the Company and Group for the year ended 30 September 2007

1 PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Directors have again decided to provide further information about the Group and its businesses in an Operating and Financial Review (OFR) format, although the legal requirement to produce an OFR under the Companies Act 1985 (The Operating and Financial Review and Directors' Report etc) Regulations 2005 was repealed on 12 January 2006 The principal objectives of the OFR are to assist stakeholders in assessing the strategies adopted by the Company and the potential for those strategies to succeed

The Accounting Standards Board (ASB) has produced a reporting statement in relation to OFRs and, whilst the Company has taken into account the requirements of the reporting statement, the Directors have not drafted the OFR with a view to it being fully compliant with the reporting statement The OFR is, however, compliant with s 234ZZB of the Companies Act 1985 which still applies to financial years beginning before 1 October 2007

The OFR has been prepared for the Group as a whole and therefore gives greater emphasis to those matters that are significant to Avon Rubber p l c and its subsidiaries when viewed as a whole It should be read in conjunction with the consolidated financial statements and the notes thereto on pages 26 to 54

The principal activities of the Group are the design and manufacture of respiratory protection products for defence, police, fire and other emergency services, together with the design and manufacture of a range of polymer based products for the dairy, defence and aerosol industries

The business review, including commentary on future developments, is covered on pages 2 to 9

2 RESULTS AND DIVIDEND

The Group profit for the year after taxation amounts to £1,095,000 (2006 £19,127,000 loss) Full details are set out in the income statement on page 26
An interim dividend of 3 7p per share (2006 3 7p) was paid on 9 July 2007
The Directors recommend a final dividend of 4 8p per share (2006 4 8p) making a total of 8 5p per share for the year to 30 September 2007 (2006 8 5p)
The total distribution of dividends for the year to 30 September 2007 is £2,353,000 (2006 £2,332,000)

3 DIRECTORS

The names of the Directors as at 18 December 2007 are set out on page 10

None of the Directors have 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 20

As announced to shareholders on 14 December 2006, Sir Richard Needham was appointed as Chairman on 26 January 2007 on the retirement of Mr T C Bonner
The Board was satisfied that Sir Richard Needham met the test of independence as set out in the Combined Code on his appointment and continues to do so As announced to shareholders on 17 May 2007 Mr D R Evans was appointed as a Non-Executive Director on 1 June 2007 The Board is satisfied that Mr B Duckworth, Mrs S J Pirie and Mr D R Evans are independent Non-Executive Directors As announced to shareholders on 29 November 2007 Mr B Duckworth resigned as a Director with effect from 30 November 2007 Mrs S J Pirie has been appointed Senior Independent Non-Executive Director

Sir Richard Needham and Mr D R Evans retire under Article 84 and, being eligible, offer themselves for re-election

Mr PC Slabbert retires by rotation and, being eligible, offers himself for re-election

As part of the Board's annual evaluation process, each Director undertook a performance evaluation which included considering the effective contribution of Board members

The Board confirms that Sir Richard Needham, who stands for re-election, has contributed substantially to the performance of the Board The Senior Independent Director gives full support to Sir Richard's offer of re-election and draws the attention of shareholders to his profile on page 10

The Board confirms that Mr D R Evans, who stands for re-election, has contributed substantially to the performance of the Board and its committees since joining the Board on 1 June 2007 The Chairman gives his full support to Mr Evans' offer of re-election and draws the attention of shareholders to his profile on page 10

All Executive Directors' service contracts with the Company require one year's notice of termination, subject to retirement, currently at age 60

None of the Executive Directors is currently appointed as a non-executive director of any limited company outside the Group

The Company has arranged an appropriate Directors and Officers insurance policy to provide cover in respect of legal action against its Directors

Further to the resolution passed by shareholders at the 2006 annual general meeting, which amended the Company's Articles of Association to allow the Company to provide the Directors with funds to cover the costs incurred in defending legal proceedings, the Company is treated as providing an indemnity for its Directors and Company Secretary which is a qualifying third party indemnity provision for the purposes of the Companies Act 1985

4 SUBSTANTIAL SHAREHOLDINGS

At 5 December 2007, the following shareholders held 3% or more of the Company's issued ordinary share capital -

Gartmore Investment Management	13 49%
Schroder Investment Management	12 92%
Howson Tattersall Investment Counsel	6 42%
Aberdeen Asset Managers	5 97%
M&G Investment Management	4 40%
Cavendish Asset Management	4 32%
Henderson Global Investors	3 76%

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5 ACQUISITION OF OWN SHARES

As announced to shareholders on 13 and 19 June 2007 the Employee Share Ownership Trust disposed of its 666,190 ordinary shares of £1 each in the Company on 14 June 2007 and subscribed to 666,191 ordinary shares of £1 each in the Company on 22 June 2007 which represents 2 29% of the current issued share capital Otherwise, no share purchases were made or funded by the Company during the year As approved at the last annual general meeting the Company has authority to purchase up to 4,241,388 shares subject to certain terms and conditions

6 POLITICAL AND CHARITABLE CONTRIBUTIONS

No political contributions were made during the year (2006 nil) Contributions for charitable purposes amounted to £13,257 (2006 £22,787) consisting exclusively of small donations to charities

7 CREDITOR PAYMENT POLICY

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

For the year ended 30 September 2007, the number of days purchases outstanding at the end of the financial year for the Group was 47 days (2006 50 days) based on the ratio of trade creditors at the end of the year to the amounts invoiced during the year by trade creditors On the same basis the number of days purchases outstanding for the parent company was 47 days (2007 53 days)

8 RESEARCH AND DEVELOPMENT

The Group continues to utilise its materials expertise to further advance its products and remain at the forefront of technology in the field of polymer technology and materials engineering The Group maintains its links to key Universities and continues to work with new and existing customers and suppliers to develop its knowledge and product range As a result of these activities Avon continues to be recognised as a world leader in the understanding of the use of polymer products in its core product areas

9 EMPLOYEES

Our employees are fundamental to the growth and success of our business An objective of the Group is to attract, retain and develop high performing employees who can facilitate and participate in the Group's pursuit of its strategic aims and add value to the business and to our stakeholders

The Group performance management process links managers' remuneration to achievement of a range of performance targets, whilst senior executives are involved in the Group's performance through participation in a performance share plan

The Group seeks to encourage regular employee consultation, communication and involvement and to promote the development of potential through relevant training Employees are systematically provided with information on matters of concern to them through management briefings and the noticeboard system Through consultation, whether direct or though trade union representatives, employees' views are taken into account in making decisions likely to affect their interests Through these processes all employees are made aware of the financial and economic factors that affect the Group's performance

The Group applies policies and procedures which are intended to further diversity in our workforce and ensure that no employee is disadvantaged as a result of discrimination including on grounds of sex, race, religion, disability or age In particular, the Group gives full and fair consideration (having regard to the person's particular aptitudes and abilities) to applications for employment by disabled persons (as defined in the Disabled Persons (Employment) Act 1944) Support and training is given to any of the Group's employees who have become disabled during their time as an employee

10 ENVIRONMENT

The site at Hampton Park West, Wiltshire and the Mixing facility at Westbury, Wiltshire are certified to ISO 14001 Our Protection, Dairy and Engineered Fabrications operations in North America operate in compliance with applicable State requirements and continue to work towards ISO 14001 compliance The Group encourages initiatives to maximise efficiency, minimise waste and promote recycling For example, our Hampton Park West facility recycles over 75% of the waste it produces and aims to improve this percentage next year A recent initiative has resulted in the recycling of polythene, which has reduced the volumes being sent to landfill In the US at our Engineered Fabrications facility an initiative has resulted in a reduction in air emissions and the site is currently operating 40% below the levels authorised by its Mississippi State Air Emission Permit

11 HEALTH AND SAFETY

The Board recognises the importance of health and safety to the business Not only does a safe working environment contribute to employee well being, the prevention of personal injury contributes to the running of an efficient business The Group's stated policy in this area is that management practices and employee work activity will, so far as is reasonably practicable, ensure the health, safety and welfare at work of its employees, contractors and visitors, together with the health and safety of all other persons affected by the business activities of the Group's operations

All of the Group's businesses maintain health and safety systems that are both compliant with Group policy and appropriate to the business, with the overall objective of providing a safe and healthy working environment

At the Hampton Park West facility, integration of the health and safety and environmental management systems has reduced the number of procedures and led to a more efficient use of time and resources The site is also working to the UK rubber industry's five year action plan on health and safety, entitled "Rubbing out Risks" In the US, at Avon-ISI there is a learning programme to educate employees on safe working practices and how to avoid injury None of the Group's facilities have experienced a serious workplace injury in the last year

12 CORPORATE SOCIAL RESPONSIBILITY

The Directors acknowledge the importance of corporate social and ethical responsibility in the Group's activities and understand the growing emphasis placed on such conduct in the regulatory environment applying to UK companies Aside from promoting initiatives around lean manufacturing and the reduction in levels of waste and energy use, the Group's

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stated policy is to direct management practices to

- Good communication and integrity in our dealings with the communities in which we operate,

- Fostering greater understanding between the Group's businesses and the communities in which they operate, and

- Encouraging employees to participate (where appropriate) in the affairs of the community and professional bodies

In the UK the Group maintains a fund with the Community Foundation for Wiltshire and Swindon, a charity dedicated to strengthening local communities The Group Director of Human Resources is a trustee of the Foundation, which targets its grants to make a genuine difference to the lives of local people This year Avon's fund provided a grant to the Riding for the Disabled Association and the Devises and District PHAB Club, a social club for physically handicapped and able-bodied people In the US, the businesses all take an active part in their local Chambers of Commerce and continue to seek to enhance their partnerships with the local community through employee involvement in local charities and business groups

13 AUDITORS
Each Director confirms that on the date that this report was approved

- so far as they are aware, there is no relevant audit information of which the auditors are unaware,

- they have taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the annual general meeting

By order of the Board

M Ingrey-Counter, Company Secretary
Melksham, Wiltshire
18 December 2007

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Corporate Governance
Statement of compliance with the Combined Code

The Company believes in high standards of corporate governance and the Board is accountable to shareholders for the Group's performance in this area This statement describes how the Group is applying the relevant principles of governance, as set out in the Combined Code of Corporate Governance dated June 2006 ("the Code") which is available on the website of the Financial Reporting Council ("FRC")

As referred to in last year's report, the Company is applying the June 2006 version (not the July 2003 version) of the Code on a voluntary basis for the financial year commencing 1 October 2006

The Company is a "smaller company" for the purposes of the Code and in consequence certain provisions of the Code either do not apply to the Company or may be judged to be disproportionate or less relevant in its case

The Company has complied throughout the year with the applicable provisions of the Combined Code other than as explained in this report

This statement will address separately three main subject areas of the Code namely the Board, Relations with Shareholders and Accountability and Audit Directors' remuneration is dealt with in the Remuneration Report on pages 17 to 22

The Board confirms that it has been applying the procedures necessary to implement the "Internal Control Guidance for Directors on the Combined Code" ("the Turnbull Report")

1 THE BOARD

The Board of Avon Rubber p l c currently comprises a Chairman, two independent Non-Executive Directors ("the Non-Executive Directors"), and two Executive Directors who are the Chief Executive and the Finance Director All Directors submit themselves for re-election at regular intervals of not more than three years and are subject to re-election at their first Annual General Meeting after appointment Additionally, the Non-Executive Directors are appointed by the Board for specific terms and reappointment is not automatic Non-Executive Directors submit themselves for annual re-election if they have served for more than 9 years since first election

As announced to shareholders, the Board approved the appointment of Sir Richard Needham for the position of Chairman of the Company following the retirement of Mr T C Bonner on 25 January 2007 The Board also appointed Mr D R Evans as a Non-Executive Director on 1 June 2007 Mr B Duckworth resigned as a Non-Executive Director on 30 November 2007

Biographies of the directors appear on page 10 These illustrate the range of business and financial experience which the Board is able to call upon The intention of the Board is that its membership should be well balanced between executives and non-executives and have the appropriate skills and experience The special position and role of the Chairman under the Code is recognised by the Board and a written statement of the division of responsibilities of the Chairman and Chief Executive has been agreed by the Board The Chairman is responsible for the leadership of the Board and the Chief Executive manages the Group and has the prime role, with the assistance of the full Board, in developing and implementing business strategy

One of the roles of the Non-Executive Directors under the leadership of the Chairman is to undertake detailed examination and discussion of strategies proposed by the Executive Directors, so as to ensure that decisions are in the best long-term interests of shareholders and take proper account of the interests of the Group's other stakeholders The Board has agreed a procedure for meetings of the Non-Executive Directors with and without the Chairman

An annual performance evaluation was undertaken by the Board in 2007 The Chairman acted as the sponsor of the evaluation process and each Director was required to score a questionnaire for review by the Board and appropriate Committees The Group Director of Human Resources acted as facilitator to the Board and issues arising from the process were incorporated into the Board's business as appropriate Within the evaluation exercise, the Board addressed three key areas, the extent to which the Board focuses on the right issues, whether the Board is staffed to be effective and whether the Board has the right mechanics in place In view of the changes that took place in the composition of the Board during 2007 it was decided to defer a comprehensive evaluation of the performance of individual Directors and the Chairman until next year

The Non-Executive Directors fully review the Group's operational performance and the Board as a whole has, with a view to reinforcing its oversight and control, reserved a list of powers solely to itself which are not to be delegated to management This list is regularly reviewed and updated and includes appropriate strategic, financial, organisational and compliance issues, embracing the approval of high level announcements, circulars and the report and accounts and certain strategy and management issues Examples of strategy and management issues include the approval of the annual operating budget and the three year plan, the extension of the Group's activities into new business and geographic areas (or their cessation), changes to the corporate or capital structure, financial issues, including changes in accounting policy, the approval of dividends, bank facilities and guarantees, changes to the constitution of the Board, and the approval of significant contracts, for example the acquisition or disposal of assets worth more than £1 million, or the exposure of the Company or the Group to a risk greater than £1 million

All Directors have full and timely access to all relevant information and the Board meets regularly with appropriate contact between meetings All Directors receive an induction on joining the Board When appointed, Non-Executive Directors are made aware of and acknowledge their ability to meet the time commitments necessary to fulfil their Board and Committee duties Procedures are in place, which have been agreed by the Board, for Directors, where necessary in the furtherance of their duties, to take independent professional advice at the Company's expense and all Directors have access to the Company Secretary The Company Secretary is responsible to the Board for ensuring that all Board procedures are complied with The removal of the Secretary is a decision for the Board as a whole

Of particular importance in a governance context are three committees of the Board, namely the Remuneration Committee, the Nominations Committee and the Audit Committee The members of the Committees comprise the Chairman and all the Non-Executive Directors Notwithstanding the restriction contained in the Code on the constitution of the Audit Committee, the Non-Executive Directors have expressed the wish that the Chairman should remain a member the Audit Committee The Non-Executive Directors regard the Chairman as adding value to the deliberations of this Committee and their view is that this is appropriate given the size of the Board Furthermore, the Chairman's membership of the Audit Committee accords with the proposals on Audit Committee membership for smaller listed

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companies set out by the FRC in its consultation which should lead to a revised Code coming into effect in June 2008 Mrs S J Pirie is Chairman of the Audit Committee The Board is satisfied that Mrs Pirie has recent relevant financial experience and her profile appears on page 10 Sir Richard Needham chairs the Nominations Committee and Mr B Duckworth was Chairman of the Remuneration Committee until his resignation on 30 November 2007 Mr Duckworth is succeeded as Senior Independent Non-Executive Director by Mrs Pirie Mr D R Evans replaced Mr Duckworth as Chairman of the Remuneration Committee with effect from 1 December 2007

The Remuneration Committee's principal responsibilities are to decide on remuneration policy on behalf of the Board and to determine remuneration packages and other terms and conditions of employment, including appropriate performance related benefits, for Executive Directors and other senior executives The Chief Executive and the Group Director of Human Resources attend meetings of the Committee by invitation, but are absent when issues relating to each of them are discussed

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

The Audit Committee meets at least three times a year The meetings are also attended by representatives of the Group's external auditors and the Executive Directors At all meetings time is allowed for the Audit Committee to discuss issues with the external auditors with no Executive Directors present As well as reviewing draft preliminary and interim statements, the Committee reviews significant financial reporting judgements contained in formal announcements by the Company The Committee also considers external and internal audit reports and monitors all services provided by, and fees payable to, the external auditors to ensure that potential conflicts of interest are considered and that an objective and professional relationship is maintained As part of its work, and in line with its terms of reference, the Committee particularly considers the discharge of the Board's responsibilities in the areas of corporate governance, financial reporting and internal control, including the internal management of risk, as identified in the Turnbull Report The Committee reviews and monitors the independence and objectivity of the external auditors and the effectiveness of the audit process The Committee also keeps under review the nature, extent, objectivity and cost of non-audit services provided by the external auditors

Meetings during year ended 30 September 2007

	Full Board	Audit Committee	Remuneration Committee	Nominations Committee	
Total number of meetings in 12 months to 30/9/07					
	12	3	7	3	
T C Bonner	4	1	2	2	Resigned 25 Jan 2007
B Duckworth	12	3	7	2	Resigned 30 Nov 2007
S J Pirie	12	3	6	3	
Sir Richard Needham	8	2	5	1	Appointed 26 Jan 2007
D R Evans	3	1	3		Appointed 1 Jun 2007
T K P Stead	12	*3	*7	*3	
PC Slabbert	12	*3	*1	*2	

* Attendance by invitation

Copies of the terms of reference of the Nominations, Remuneration and Audit Committees and the terms and conditions of appointment of the Non-Executive Directors are available on the Company's website or from the Company Secretary

2 RELATIONS WITH SHAREHOLDERS

The Directors regard communications with shareholders as extremely important In terms of published materials the Company issues a detailed annual report and accounts and, at the half year, an interim report Further to the Transparency Directive, which has been implemented by the FSA through amendments to the Listing and Disclosure Rules, interim management statements will be issued for the financial year commencing 1 October 2007 Dialogue takes place regularly with institutional shareholders and general presentations are given following the preliminary and interim results Shareholders have the opportunity to ask questions at the annual general meeting and also have the opportunity to leave written questions for the responses of the Directors The Directors meet informally with shareholders after the annual general meeting and respond throughout the year to correspondence from individual shareholders on a wide range of issues Annual general meetings provide a venue for the shareholders to meet new Non-Executive Directors in addition to any other meetings shareholders may request

The Non-Executive Directors, having considered the Code with regard to relations with shareholders, are of the view that it is most appropriate for the shareholders to have regular dialogue with the Executive Directors However, should shareholders have concerns, which they feel cannot be resolved through normal shareholder meetings, the Chairman, Senior Independent Non-Executive Director and the Non-Executive Director may be contacted upon request through the Company Secretary

At the annual general meeting on 23 January 2008, the Board will be following the recommendations in the Code regarding the constructive use of annual general meetings, in particular, the agenda will again include a presentation by the Chief Executive on aspects of the Group's business

3 ACCOUNTABILITY AND AUDIT

The Combined Code requires that Directors review the effectiveness of the Group's system of internal controls The scope of this review covers all controls including financial, operational and compliance controls as well as risk management As indicated earlier, the Board has put in place the procedures necessary to implement the guidance contained within the Turnbull Report on internal control and the Audit Committee has responsibility to review, monitor and make policy and recommendations to the Board upon all such matters

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

- Systems exist throughout the Group which provide for the creation of three year plans and annual budgets, monthly reports enable the Board to compare performance against budget and to take action where appropriate

- An internal audit process is undertaken by members of the finance team who conduct financial audits of each of the sites at least annually In addition, site controllers and plant managers are obliged to positively confirm, on a quarterly basis, that the controls as documented in the Internal Control Manual are in place and are being adhered to, with specific reference to key

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controls such as bank and control account reconciliations This process has been reviewed by the Board and continues to be monitored by the Audit Committee

- Procedures are in place to identify any major business risks and to evaluate their potential impact on the Group These risks are described within the Operating and Financial Review on page 4 The Board carries out an annual review of the key risks facing the Group In the year under review, the risk assessments carried out both at business level and at main board level continued to be reviewed and strengthened as part of the Board's ongoing response to the guidance contained within the Turnbull Report

- A Risk Management Steering Group is in place which includes in its membership one Executive Director Its remit is to apply an 'Enterprise Risk Management' approach to the Group's analysis of risk to ensure that risks identified by the Board or by the business units are being assessed effectively and analysed and that actions are introduced to eliminate, minimise, control or transfer the risk (or the effect thereof) as appropriate

- There is a clearly defined delegation of authority from the Board to the business units, with appropriate reporting lines to individual Executive Directors

- There are procedures for the authorisation of capital expenditure and investment, together with procedures for post-completion appraisal

- Internal 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 control framework within the Group The Policy and Code includes a whistle-blowing procedure whereby individuals may raise concerns in matters of financial reporting or other matters directly with the Audit Committee which will ensure independent investigation and follow up action The Policy and Code is reviewed annually

- Although the Board itself retains the ultimate power and authority in relation to decision making, the Audit Committee meets at least three times a year with management and external auditors to review specific accounting, reporting and financial control matters This Committee also reviews the interim, preliminary and annual statements and has primary responsibility for making a recommendation on the appointment, reappointment and removal of external auditors

4 _GOING CONCERN
After making appropriate enquiries, the Directors have, at the time of approving the financial statements, formed a judgement that there is a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements

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Remuneration Report
for the year ended 30 September 2007

Part 1 of this Report sets out the Company's remuneration policies for the Directors for the year ended 30 September 2007 These policies are likely to continue to apply in future years, unless there are specific reasons for change, in which case shareholders will be informed appropriately Part 2 sets out audited details of the remuneration received by Directors during the year ended 30 September 2007

PART 1 REMUNERATION POLICIES (NOT SUBJECT TO AUDIT)

EXECUTIVE DIRECTORS

Remuneration Committee

The Remuneration Committee is responsible for developing the remuneration policy for the Executive Directors and for determining their individual packages and terms of service In establishing this policy, and to ensure consistency with the arrangements for other management levels, the Remuneration Committee has regard to pay and conditions throughout the Group and is also responsible for the remuneration packages of key senior executives The Committee's terms of reference are available on the Company's website

The Committee met seven times during the year At the start of the year, the Committee comprised Mr B Duckworth (Chairman), Mr T C Bonner, and Mrs S J Pirie In January 2007, on Mr Bonner's retirement, Sir Richard Needham joined the Committee In June 2007, Mr D R Evans joined the Committee On the resignation of Mr Duckworth on 30 November 2007 Mr Evans became Chairman of the Committee The Committee currently comprises Mr D R Evans (Chairman), Sir Richard Needham and Mrs S J Pirie The Chief Executive, Mr T K P Stead and the Group Director of Human Resources, Mr S D Wright, are invited to attend meetings except when matters relating to their own remuneration arrangements are discussed The Committee also uses external independent professional advisers Towers Perrin are the Committee's remuneration consultants and provide advice primarily on competitive market levels and on the performance-related elements of the Executive Directors' remuneration Towers Perrin also provide administration services to the Company's employee share trust KPMG is the Company's independent actuarial advisor on pension matters and KPMG will provide the Committee with information on executive pension arrangements when required TLT, the Company's appointed legal advisers, provide legal advice when required New Bridge Street Consultants provide performance monitoring data for review by the Committee in relation to the Performance Share Plan (see below)

Guiding Policy

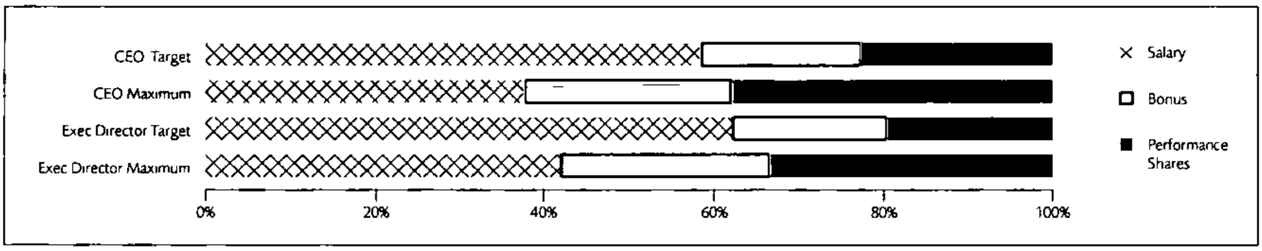
The Remuneration Committee's aim is to ensure that the structure of the Executive Directors' remuneration supports the achievement of the Company's performance objectives and, in turn, increases shareholder value The Remuneration Committee reviews executive remuneration arrangements regularly to ensure that they remain effective, competitive and appropriate to the Group's circumstances and prospects, and monitors incentive award levels and consequent company liabilities

The Company's guiding policy on Executive Directors' remuneration is that

- the Executive Directors' remuneration packages should take into account the linkage between pay and performance by both rewarding effective management and by making the enhancement of shareholder value a critical success factor in the setting of incentives, both in the short and the long term, and
- the overall level of salary, incentives, pension and other benefits should be competitive when compared with other manufacturing companies of a similar size and global spread

Remuneration Elements

The Executive Directors' remuneration comprises four elements annual salary, short-term bonus, longer-term performance shares and other benefits (including pension) In line with the Company's emphasis on performance-related pay, bonus payments are dependent on the Company's performance in the financial year, while the receipt of performance shares is dependent on enhanced relative returns to shareholders over a three-year period The arrangements are similar for other senior executive team members The following table illustrates the proportion of variable pay to base salary for the Chief Executive and the Finance Director for 2007/8, assuming target or maximum performance related pay



Proportion of Performance Related Pay to Salary

Salary

In setting salary levels, the Remuneration Committee considers the experience and responsibility of the Executive Directors and their personal performance during the previous year The Committee also takes account of salary levels within other companies of a similar size and global spread, as well as the rates of increases for other employees within the Company The Remuneration Committee reviews salaries with effect from January each year

The annual base salary as at 30 September 2007 for Mr T K P Stead is £223,600 and for Mr PC Slabbert is £133,800

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Annual Bonus

The Executive Directors' annual bonus arrangements are focused on the achievement of the Company's short-term financial objectives Before the start of each year, the Remuneration Committee sets financial performance targets for the year These are designed to be stretching and for the bonus for 2007/8 will be based on two measures, profit before interest and tax (70% of bonus) and cash flow (30% of bonus) The maximum bonus potential for 2007/8 under these arrangements is 60% of salary for the Chief Executive and 50% of salary for the Finance Director Bonus payments are not pensionable

Profit Incentive Bonus Scheme

In 2007 the Remuneration Committee approved the introduction of a Profit Incentive Bonus Scheme as a short-term measure to focus the attention of those managers at Grade 4 and above on the immediate objective of improving the Company's profitability Performance is measured quarterly against a budgeted corporate profit figure When this is equalled or exceeded, participants receive $5,000 The maximum annual bonus amount is $20,000 The bonus award has been quantified in dollars to reflect the fact that the US now represents the majority of the Company's business interests The Executive Directors participate in the scheme as part of the eligible group The scheme operated during the last two quarters of 2006/7, but no awards were payable

Performance Share Plan

The Remuneration Committee introduced this Plan with shareholder approval at the AGM in 2002 It came into effect from 1 October 2001, with the aim of motivating Executive Directors and other senior executives to achieve performance superior to the Company's peers and to deliver sustainable improvement in shareholder returns This is reflected in the Plan's performance condition which compares the total return received by the Company's shareholders in terms of share price growth and dividends (total shareholder return or "TSR") over a period of time with the total returns received by shareholders in companies within a pre-determined and appropriate comparator group

Under the Plan, Executive Directors and a limited number of other senior executives receive conditional share awards (which may be in the form of nil-cost options) in respect of the Company's shares The actual number of shares that each participant receives depends on the Company's TSR performance over a three-year period compared to the TSR performance within a comparator group comprising the FTSE SmallCap index, excluding investment trusts Over a three year period

- If the Company's TSR performance is below the median TSR of the comparator group, no shares will vest
- If the Company's TSR performance is equal to the median TSR of the comparator group, 40% of the shares may vest
- If the Company's TSR performance is equal to, or exceeds, the upper quartile TSR of the comparator group 100% of the shares may vest
- If the Company's TSR performance is between the median and upper quartile TSR of the comparator group, shares may vest on a pro-rata basis

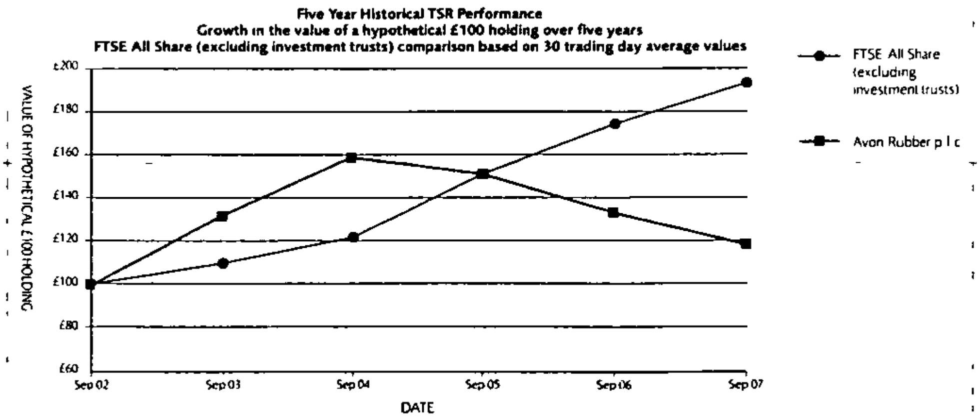
The above schedule reflects the Remuneration Committee's intention to reward only TSR performance which outperforms the comparator group In addition, the Committee may reduce the number of shares which will vest or decide that no shares will vest if it considers that the financial performance of the Company or the performance of the participant does not justify vesting
The maximum value that can be granted under the Plan in any year is 100% of salary

As reported last year, the Remuneration Committee determined that the 2003/4 conditional award should not vest

The Company's TSR performance in respect of the 2004/5 conditional award did not exceed the median performance of the comparator group, as calculated by New Bridge Street Consultants The Committee therefore determined in October 2007 that the award should not vest

PERFORMANCE GRAPH

As required by regulations on directors' remuneration, the following graph illustrates the total return, in terms of share price growth and dividends, on a notional investment of £100 in the Company over the last five years relative to the FTSE All Share Index (excluding investment trusts) This index was chosen by the Remuneration Committee as a competitive indicator of general UK market performance



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Shareholding Guidelines
Under shareholding guidelines approved during 2004, Executive Directors and other senior executives participating in the Performance Share Plan during the year are required to build up and retain a shareholding in the Company For Executive Directors the shareholding requirement is equivalent to 1 5 times base salary and for senior executives the shareholding requirement is equivalent to 1 0 times base salary The Executive Directors and senior executives are required to retain a portion of any awards that vest under the Performance Share Plan until their respective shareholding guideline is met

Dilution
The Company reviews the awards of shares made under the various all-employee and executive share plans in terms of their effect on dilution limits In respect of the 5% and 10% limits recommended by the Association of British Insurers, the relevant percentages were 2 3% and 3 2% respectively based on the issued share capital at 30 September 2007 It has been the Company's practice to use an Employee Share Ownership Trust in order to meet its liability for shares awarded under the Performance Share Plan At 30 September 2007 there were 666,191 shares held in the Employee Share Ownership Trust which, in the Remuneration Committee's opinion, are adequate to cover the number of shares considered likely to vest in relation to awards granted under the Performance Share Plan to date During the year the Employee Share Ownership Trust disposed of its 666,190 shares and subscribed to 666,191 shares This is described in more detail in section 5 of the Directors' Report on page 12

Pensions and other benefits
The current Executive Directors (Mr T K P Stead and Mr PC Slabbert) are both based in the UK and are members of the Senior Executive Section of the Avon Rubber Retirement and Death Benefits Plan This provides members with a defined level of benefit on retirement depending on length of service and earnings Members can receive a pension of up to two-thirds of pensionable salary on retirement from age 60, provided the minimum service requirement of 20 years has been met On death in service, a lump sum of four times pensionable salary is paid, along with a spouses' pension of one half of the member's prospective pension When an Executive Director dies after retirement, a spouse's pension of one half of the member's pension is paid Directors' basic salaries are the only pensionable element of their remuneration packages The Executive Directors, like all members, are required to make contributions to the scheme at a rate of 7 5% of salary

In line with Company policy for new employees in the UK, any UK-based Executive Directors joining the Company with effect from 1 February 2003 will be offered defined contribution arrangements

As reported last year, the Company reviewed the pension arrangements it provides to UK-based Executive Directors as a result of the UK legislation introduced in April 2006 affecting the taxation of pensions, in particular removing the earnings cap and introducing a lifetime allowance As a result of the removal of the earnings cap, a pension supplement in respect of salary above the cap is no longer required for Mr T K P Stead

Executive Directors are entitled to participate in employee healthcare plans and to receive a car allowance and related expenses Executive Directors are also entitled to participate in the Company's Inland Revenue approved Sharesave Option Scheme, although this did not run in the year to 30 September 2007

Neither of the Executive Directors is currently appointed as a non-executive director of any limited company outside the Group The Remuneration Committee will establish a policy on the treatment of any fees received by Executive Directors in respect of such non-executive roles when required

Contracts
The Company's policy is that Executive Directors should normally be employed on a contract which may be terminated either by the Company or the Executive Director giving 12 months notice and which otherwise expires on retirement, currently at age 60 The Company may terminate the contract early without cause by making a payment in lieu of notice by monthly installments of salary and benefits to a maximum of 12 months, with reductions for any amounts received from providing services to others during this period

The Remuneration Committee may vary these terms if the particular circumstances surrounding the appointment of a new Executive Director demand it The Remuneration Committee strongly endorses the obligation on an Executive Director to mitigate any loss on early termination and will seek to reduce the amount payable on termination where it is appropriate to do so The Committee will also take care to ensure that, while meeting its contractual obligations, poor performance is not rewarded The Executive Directors' contracts contain early termination provisions consistent with the policy outlined above

The table below summarises key details in respect of each Executive Director's contract

	Contract date	Years to expected retirement	Company notice period	Executive notice period
T K P Stead	4 July 2005	2	12 months	12 months
PC Slabbert	4 July 2005	15	12 months	12 months

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CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The Chairman and Non-Executive Directors receive a fixed fee in cash for their services Fee levels are determined by the Board in light of market research and advice provided by Hanson Green, which also provides services in connection with the proposed recruitment of new Non-Executive Directors Fee levels are reviewed from time to time The Chairman and the Non-Executive Directors do not participate in any Board discussions or vote on their own remuneration, nor do they participate in any incentive or benefit plans

The Chairman and the Non-Executive Directors each have a letter of appointment which specifies an initial period of appointment The initial period for Mrs Pirie is three years Sir Richard Needham's and Mr Evans' appointments are also for an initial period of three years subject to review after the first 12 months Chairman and Non-Executive Director appointments are subject to Board approval and election by shareholders at the annual general meeting following appointment and, thereafter, re-election by rotation every three years The Chairman and any Non-Executive Director who has served for more than 9 years since first election are subject to annual re-election by shareholders There are no provisions for compensation payments on early termination in the Chairman's and the Non-Executive Directors' letters of appointment The date of each appointment is set out below, together with the date of their last re-election

	Date of initial appointment	Date of last re election	Unexpired term as at 30 Sept 2007
Sir Richard Needham (Appointed Chairman 26 Jan 2007)	26 January 2007	–	2 years 4 months
D R Evans	1 June 2007	–	2 years 8 months
S J Pirie OBE	1 March 2005	19 January 2006	5 months
Former directors			
T C Bonner CBE*	5 September 1994	19 January 2006	-
B Duckworth OBE*	14 May 2002	25 January 2007	–

* Mr T C Bonner resigned as Chairman with effect from the end of the annual general meeting on 26 January 2007 Mr B Duckworth resigned as a Director with effect from 30 November 2007

DIRECTORS' INTERESTS

Beneficial interests of Directors, their families and trusts in ordinary shares of the Company were

	At the end of the year	At the beginning of the year
Sir Richard Needham	12,500	N/A
S J Pirie OBE	16,000	5,000
D R Evans	-	N/A
T K P Stead	59,608	59,608
PC Slabbert	22,833	22,833
Former directors		
T C Bonner CBE *	N/A	12,500
B Duckworth OBE *	31,000	6,000

* Mr T C Bonner resigned as Chairman with effect from the end of the annual general meeting on 26 January 2007 Mr B Duckworth resigned as a Director with effect from 30 November 2007

Additionally, the Company used to operate a Qualifying Employee Share Ownership Trust ("Quest") which was used to deliver shares to employees exercising their options under the Sharesave Option Scheme The remaining shares in the Quest were transferred out during the year to satisfy options exercised under the Scheme and the Quest is in the process of being wound up This is because, following the introduction of statutory tax relief contained in Schedule 23 to the Finance Act 2003, the Quest is no longer a tax efficient vehicle for satisfying options granted under the Scheme Neither Mr PC Slabbert nor Mr T K P Stead therefore had an interest in the shares held by the Quest at 30 September 2007

The register of Directors' interests contains details of Directors' shareholdings and share options

There were no movements in Directors' shareholdings between the end of the financial year and 18 December 2007

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Remuneration Report continued
for the year ended 30 September 2007

PART 2 DETAILS OF REMUNERATION (AUDITABLE INFORMATION)

The following information has been audited by the Company's auditors PricewaterhouseCoopers LLP, as required by Schedule 7A to the Companies Act 1985

Directors' emoluments

	Basic salary & fees £'000	Other benefits* £'000	Bonus £'000	**Total 2007 £'000**	Total 2006 £'000
Directors holding office throughout 2006 and 2007					
B Duckworth OBE (Non-Executive)	39	–	–	**39**	34
S J Pirie OBE (Non-Executive)	39	–	–	**39**	34
T K P Stead (highest paid director)	221	22	–	**243**	350
P C Slabbert	132	20	–	**152**	195
Total 2007	**431**	**42**	**–**	**473**	–
Total 2006	399	67	147	–	613
Appointments & resignations					
The Rt Hon Sir Richard Needham (Chairman) (appointed 26 1 07)	48	–	–	**48**	–
T C Bonner (Chairman) (resigned 25 01 07)	20	–	–	**20**	60
D R Evans (Non-Executive) (appointed 1 6 07)	12	–	–	**12**	–
G T E Priestley (resigned 19 1 06)	–	–	–	–	12
Total 2007	**511**	**42**	–	**553**	–
Total 2006	471	67	147	–	685

* Other benefits are described in Part 1 on page 19

No Director waived emoluments in respect of the year ended 30 September 2007 (2006 Nil)

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

	T K P Stead	P C Slabbert
Accrued entitlement as at 30 September 2007	£38,782 p a	£28,280 p a
Increase in accrued entitlement over the period	£8,184 p a	£4,105 p a
Contributions paid by each Director over the period	£16,286	£9,708
Transfer value at 30 September 2006	£541,739	£227,850
Transfer value at 30 September 2007 or date of retirement if earlier	£744,541	£280,847
Increase in the transfer value over the year (net of Director's contributions)	£186,516	£43,290
Increase in accrued entitlement over the period (excluding inflation of 3 6%)	£7,083 p a	£3,235 p a
Transfer value of increase in accrued pension (net of Director's contributions)	£119,698	£22,420

All transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11

The transfer values of the accrued entitlement represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the directors' pension benefits They do not represent sums payable to individual directors and, therefore, cannot be added meaningfully to annual remuneration

The accrued entitlement shown is the amount that would be paid each year at normal retirement age, based on service to the end of the current year The accrued lump sum, under the defined benefit scheme, for the highest paid director at 30 September 2007 was £181,520 (2006 £138,438)

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Performance Share Plan 2002 ("the 2002 Scheme")
For grants of options or conditional awards made to date pursuant to the 2002 Scheme, the performance condition has been based on the Company's TSR relative to the TSR of a comparator group, comprising the FTSE SmallCap companies (excluding investment trusts)

A list of the number of shares under option granted at nil cost, to Executive Directors and senior employees, prior to 30 September 2007 and following approval of the 2002 Scheme by shareholders, is set out below -

	Granted * 2003/4 (for the qualifying period ending 30 Sept 2006)	Granted ** 2004/5 (for the qualifying period ending 30 Sep 2007)	Granted 2005/6 (for the qualifying period ending 30 Sept 2008)	Granted 2006/7 (for the qualifying period ending 30 Sept 2009)	Lapsed in year	**Total option awards outstanding at 30 Sep 2007**
PC Slabbert	24,828	29,295	55,652	66,494	(24,828)	**151,441**
T K P Stead	50,759	59,948	115,942	139,610	(50,759)	**315,500**
Former Directors***	158,823	185,107	–	–	(283,975)	**59,955**
Other senior employees****	80,690	98,700	116,869	113,247	(258,064)	**151,442** *****

* As explained in last year's report the awards granted under the 2003/4 cycle did not vest during the year

** The Remuneration Committee agreed on 19 October 2007 that the 2004/5 awards did not vest as the Company's TSR performance did not exceed the median performance of the comparator group

*** This row includes awards granted to Mr S J Willcox (retired 30 September 2005) and Mr S J Stone (retired 31 August 2005) All their awards are pro-rated and may vest at the end of the relevant qualifying periods, subject to satisfaction of the applicable measures

**** This row includes awards granted to Mr PJ Fairbairn (retired 30 September 2007) All his awards are pro-rated and may vest at the end of the relevant qualifying periods, subject to satisfaction of the applicable measures

***** This figure includes 101,287 in respect of key management as defined in note 9 to the financial statements

The market price at the award date for the 2006/7 award was 154 0 pence, for the 2005/6 award was 172 5 pence, for the 2004/5 award was 192 0 pence, for the 2003/4 award was 217 5 pence

Sharesave option schemes

	Number of options at 30 Sep 06	Granted during the year	Exercised during the year	Lapsed during the year	**Number of options at 30 Sep 07**	Exercise price (£)	Exercisable during 6 months commencing
T K P Stead	4,913	–	–	–	**4,913**	1 72	July 2008

As at 30 September 2007, other employees held options over 245,371 ordinary shares, exercisable between 2007 and 2012, at option prices ranging from £1 00 to £3 14

All options are over ordinary shares of £1 each

As at 30 September 2007, the market price of Avon Rubber p l c shares was £1 535 (2006 £1 795) During the year the highest and lowest market prices were £1 95 and £1 445 respectively

The Remuneration Report has been approved by the Board of Directors and signed on its behalf by

David Evans
Chairman of the Remuneration Committee
18 December 2007

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Statement of Directors' Responsibilities
for the year ended 30 September 2007

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Group and Company financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Company financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) In preparing the Group financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB) The Group and Company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period

In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,

- make judgements and estimates that are reasonable and prudent,

- state that the Group financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by the IASB, and with regard to the Company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,

- prepare the Group and Company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The Directors confirm that they have complied with the above requirements in preparing the financial statements

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the Company financial statements and the Directors' Remuneration Report comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors are responsible for the maintenance and integrity of the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

By order of the Board

M Ingrey-Counter, Company Secretary
Melksham, Wiltshire
18 December 2007

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for the year ended 30 September 2007

Independent Auditors' Report
for the year ended 30 September 2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AVON RUBBER p l c

We have audited the Group financial statements of Avon Rubber p l c for the year ended 30 September 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense, the Accounting Policies and Critical Accounting Judgements and the related notes These Group financial statements have been prepared under the accounting policies set out therein

We have reported separately on the parent company financial statements of Avon Rubber p l c for the year ended 30 September 2007 and on the information in the Directors' Remuneration Report that is described as having been audited

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' Report is consistent with the group financial statements The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements The other information comprises only the Directors' Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements Our responsibilities do not extend to any other information

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group 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 Group 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 Group financial statements

OPINION

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 September 2007 and of its profit and cash flows for the year then ended,

- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and

- the information given in the Directors' Report is consistent with the Group financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol
18 December 2007

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Consolidated Income Statement
for the year ended 30 September 2007

	Note	2007 £'000	2006 £'000
Continuing operations			
Revenue	1	**66,715**	63,112
Cost of sales		**(52,742)**	(47,821)
Gross profit		**13,973**	15,291
Distribution costs		**(3,873)**	(4,016)
Administrative expenses		**(10,633)**	(9,923)
Other operating income		**1,771**	1,114
Operating profit from continuing operations	1	**1,238**	2,466
Operating profit is analysed as			
Before exceptional items		**1,238**	(79)
Exceptional operating items	2	**–**	2,545
Finance income	3	**114**	123
Finance costs	3	**(915)**	(3,493)
Other finance income	3	**2,489**	2,151
Profit before taxation	4	**2,926**	1,247
Taxation	5	**(717)**	(2,045)
Profit/(loss) for the year from continuing operations		**2,209**	(798)
Discontinued operations			
Loss for the year from discontinued operations	6	**(1,114)**	(18,329)
Profit/(loss) for the year		**1,095**	(19,127)
Profit/(loss) attributable to minority interest		**1**	(209)
Profit/(loss) attributable to equity shareholders	20	**1,094**	(18,918)
		1,095	(19,127)
Earnings/(loss) per share	8		
Basic		**3 9p**	(68 9)p
Diluted		**3 8p**	(68 9)p
Earnings/(loss) per share from continuing operations	8		
Basic		**7 9p**	(2 1)p
Diluted		**7 7p**	(2 1)p

Consolidated Statement of Recognised Income and Expense
for the year ended 30 September 2007

	2007 £'000	2006 £'000
Profit/(loss) for the year	**1,095**	(19,127)
Actuarial gain/(loss) recognised in retirement benefit schemes	**26,187**	(2,075)
Movement on deferred tax relating to retirement benefit schemes	**(4,606)**	115
Net exchange differences offset in reserves	**(2,441)**	(809)
Net gains/(losses) not recognised in income statement	**19,140**	(2,769)
Total recognised income/(expense) for the year	**20,235**	(21,896)
Attributable to		
Equity shareholders	**20,234**	(21,687)
Minority interest	**1**	(209)
Total recognised income/(expense) for the year	**20,235**	(21,896)

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Consolidated Balance Sheet
at 30 September 2007

	Note	2007 £'000	2006 £'000
Assets			
Non-current assets			
Intangible assets	11	**17,305**	17,054
Property, plant and equipment	12	**20,041**	20,864
Deferred tax assets	5	**334**	1,101
Retirement benefit assets	10	**16,380**	–
		54,060	39,019
Current assets			
Inventories	13	**11,526**	11,257
Trade and other receivables	14	**12,773**	15,530
Cash and cash equivalents	15	**957**	6,893
		25,256	33,680
Assets classified as held for sale	6	**2,173**	–
		27,429	33,680
Liabilities			
Current liabilities			
Borrowings	17	**11,393**	8,000
Trade and other payables	16	**13,906**	18,505
Deferred tax liabilities	5	**265**	–
Current tax liabilities		**744**	736
		26,308	27,241
Liabilities directly associated with assets classified as held for sale	6	**1,707**	–
		28,015	27,241
Net current (liabilities)/assets		**(586)**	6,439
Non-current liabilities			
Deferred tax liabilities	5	**6,251**	2,293
Other non-current liabilities	16	**–**	1,071
Retirement benefit obligations	10	**1,730**	14,598
Provisions for liabilities and charges	18	**2,037**	3,426
		10,018	21,388
Net assets		**43,456**	24,070
Shareholders' equity			
Ordinary shares	19	**29,125**	28,275
Share premium account	20	**34,707**	34,191
Capital redemption reserve	20	**500**	500
Translation reserve	20	**(2,644)**	(203)
Retained earnings	20	**(18,789)**	(39,249)
Equity shareholders' funds	20	**42,899**	23,514
Minority interests (equity interests)		**557**	556
Total equity		**43,456**	24,070

These financial statements were approved by the board of directors on 18 December 2007 and were signed on its behalf by

The Rt Hon Sir Richard Needham
T K P Stead

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Consolidated Cash Flow Statement
for the year ended 30 September 2007

	Note	2007 £'000	2006 £'000
Cash flows from operating activities			
Cash (used in)/generated from operations	21	**(1,894)**	7,835
Finance costs received		**114**	123
Finance costs paid		**(896)**	(3,890)
Tax paid		**(438)**	(1,679)
Net cash (used in)/from operating activities		**(3,114)**	2,389
Cash flows from investing activities			
Proceeds from sale of subsidiaries (less cash transferred)		**–**	51,972
Proceeds from sale of property, plant and equipment		**14**	12,970
Purchase of property, plant and equipment		**(2,874)**	(8,963)
Purchase of intangible assets		**(2,445)**	(5,791)
Net cash (used in)/from investing activities		**(5,305)**	50,188
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		**1,441**	275
Net movements in loans and finance leases		**(2,488)**	(51,264)
Decrease in derivatives		**–**	24
Dividends paid to shareholders		**(2,353)**	(2,332)
Net cash used in financing activities		**(3,400)**	(53,297)
Net decrease in cash, cash equivalents and bank overdrafts		**(11,819)**	(720)
Cash, cash equivalents and bank overdrafts at beginning of the year		**6,893**	7,702
Effects of exchange rate changes		**(111)**	(89)
Cash, cash equivalents and bank overdrafts at end of the year	22	**(5,037)**	6,893

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Accounting Policies and Critical Accounting Judgements
for the year ended 30 September 2007

ACCOUNTING POLICIES
The principal accounting policies adopted in the preparation of these financial statements are set out below These policies have been consistently applied to all the years presented, unless otherwise stated

BASIS OF PREPARATION
These financial statements have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS) and IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS The financial statements have been prepared under the historical cost convention

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates It also requires management to exercise its judgement in the process of applying the company's accounting policies The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on pages 31 and 32

BASIS OF CONSOLIDATION
The consolidated financial statements incorporate the financial results and position the Group and its subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights

Subsidiaries are fully consolidated from the date on which control is transferred to the Group They are de-consolidated from the date that control ceases

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest Intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated, unrealised losses are also eliminated unless costs cannot be recovered Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group

FOREIGN CURRENCIES
The Group's presentation currency is sterling The results and financial position of all subsidiaries and associates that have a functional currency different from sterling are translated into sterling as follows

- assets and liabilities are translated at the closing rate at the date of that balance sheet,
- income and expenses are translated at average rates and all resulting exchange differences are recognised as a separate component of equity

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders equity When a foreign operation is sold, the cumulative amount of such exchange difference is recognised in the income statement as part of the gain or loss on sale

Foreign currency transactions are initially recorded at the exchange rate ruling at the date of the transaction Foreign exchange gains and losses resulting from settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets or liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying hedges

REVENUE
Revenue comprises the fair value of the consideration received for the sale of goods and services, net of trade discounts and sales related taxes Revenue is recognised when the risks and rewards of the underlying sale have been transferred to the customer, and when collectability of the related receivables is reasonably assured, which is usually when title passes or a separately identifiable phase of a contract or development has been completed and accepted by the customer

SEGMENTAL REPORTING
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments The Group's primary segment is by business as this is the dominant source and nature of Avon's risks and returns The secondary reporting format comprises the geographic segment

EMPLOYEE BENEFITS
Pension obligations and post-retirement benefits
The Company has both defined benefit and defined contribution plans

The defined benefit plan's asset or liability as recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method The present value of the defined benefit obligation is determined by discounting the estimated cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in full in the period in which they occur, outside of the income statement and are presented in the statement of recognised income and expense Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the

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vesting period) In this case, the past service costs are amortised on a straight-line basis over the vesting period The scheme is now closed to new entrants

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis Contributions are expensed as incurred

The balance sheet includes post retirement obligations in respect of overseas subsidiaries where different arrangements are adopted to provide post-retirement benefits

Share based compensation

The Group operates a number of equity-settled, share-based compensation plans The fair value of the employee services received in exchange for the grant of the options is recognised as an expense The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets) Non-market vesting conditions are included in assumptions about the number of options that are expected to vest At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest It recognises the impact of the revision to original estimates, if any, in the income statement with a corresponding adjustment to equity The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised

INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable net assets of the acquired subsidiary at the date of acquisition Identifiable net assets include intangible assets other than goodwill Any such intangible assets are amortised over their expected future lives unless they are regarded as having an indefinite life, in which case they are not amortised, but subjected to annual impairment testing in a similar manner to goodwill

Since the transition to IFRS, goodwill arising from acquisitions of subsidiaries after 3 October 1998 is included in intangible assets, is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold

Goodwill arising from acquisitions of subsidiaries before 3 October 1998, which was set against reserves in the year of acquisition under UK GAAP, has not been reinstated and is not included in determining any subsequent profit or loss on disposal of the related entity

Goodwill is tested for impairment at least annually or whenever there is an indication that the asset may be impaired Goodwill is allocated to cash-generating units for the purpose of impairment testing The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose Any impairment is recognised immediately in the income statement Subsequent reversals of impairment losses for goodwill are not recognised

Patents and distribution networks

Patents and distribution networks, recognised as identifiable net assets of amortised subsidiaries are included in intangible assets Patents are amortised over their expected useful lives Distribution networks are tested for impairment at least annually or whenever there is an indication that the asset may be impaired

Development expenditure

In accordance with IAS 38 "Intangible Assets", expenditure in respect of the development of new products where the outcome is assessed as being reasonably certain as regards viability and technical feasibility, such expenditure is capitalised and amortised over the expected useful life of the development The capitalised costs are amortised over the estimated period of sale for each product, commencing in the year sales of the product are first made Development costs capitalised are tested for impairment at least annually or whenever there is an indication that the asset may be impaired Any impairment is recognised immediately in the income statement Subsequent reversals of impairment losses for research and development are not recognised

PROPERTY PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost or deemed cost where IFRS 1 exemptions have been applied, less accumulated depreciation and any recognised impairment losses

Land is not depreciated Depreciation is provided on other assets estimated to write off the depreciable amount of relevant assets by equal annual installments over their estimated useful lives

In general, the rates used are Freehold and long leasehold buildings - 2%, Short leasehold property - over the period of the lease, plant, machinery etc - 6% to 50%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated net realisable value Gains and losses on disposal are determined by comparing proceeds with carrying amounts These are included in the income statement

FIXED ASSET INVESTMENTS

For investments in joint ventures, the Group's share of the aggregate gross assets and liabilities of the investments is included in the balance sheet and the Group's share of the profit or loss of the joint venture is included in the income statement

LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease Leases in which a significant portion of the risks and rewards of ownership are passed to the lessee are classified as finance leases

The sale and leaseback of property, where the sale price is at fair value and substantially all the risks and rewards of ownership are transferred to the purchaser, is treated as an operating lease The profit or loss on the transaction is recognised immediately and lease payments charged to the income statement on a straight-line basis over the lease term

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INVENTORIES
Inventories are stated at the lower of cost and net realisable value Cost is determined using the first-in, first-out (FIFO) method The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) It excludes borrowing costs Net realisable value is the estimated selling price in the ordinary course of business, less applicable incremental selling expenses

TRADE AND OTHER RECEIVABLES
Trade and other receivables are stated at cost after deducting provisions for impairment of receivables

CASH AND CASH EQUIVALENTS
Cash and cash equivalents include cash at bank and in hand, highly liquid interest-bearing securities with maturities of three months or less, and bank overdrafts Bank overdrafts are shown within borrowings in current liabilities on the balance sheet

PROVISIONS
Provisions are recognised when,

- the Company has a legal or constructive obligation as a result of a past event,
- it is probable than an outflow of resources will be required to settle the obligation and the amount has been reliably estimated

Where there are a number of similar obligations, for example where a warranty has been given, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small

Where a leasehold property is vacant, or sub-let under terms such that the rental income is insufficient to meet all outgoings, provision is made for the anticipated future shortfall up to termination of the lease, or the termination payment, if smaller

TAXATION
Income tax on the profit or loss for the year comprises current and deferred tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of prior years

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements However, the deferred income tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled

Deferred income tax assets are recognised to the extent that is probable that future taxable profit will be available against which the temporary differences can be utilised
Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future
Income tax is charged or credited in the income statement, expect where it relates to items recognised in equity, in which case it is dealt with in equity

DIVIDENDS
Final dividends are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by shareholders, while interim dividends are recognised in the period in which the dividends are paid

SHARE CAPITAL
Ordinary shares are classified as equity

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders

STANDARDS ADOPTED EARLY
The Company has adopted IFRIC 14 early IFRIC 14 determines the amount of recoverable surplus and the impact of minimum funding requirements on pension schemes Under IFRIC 14, the Company is able to recognise all of the Scheme's surplus as at 30 September 2007

STANDARDS AND INTERPRETATIONS ISSUED BUT NOT APPLIED
At the date of approval of these financial statements, the following Standards and Interpretations which have not been applied in these financial Statements, were issued but the application was not mandatory for the period

IFRS 7 Financial Instruments Disclosures and the related amendment to IAS 1 on capital disclosures
IFRS 8 Operating Segments
IFRIC 10 Interim Financial Reporting and Impairment
IFRIC 11 Group and Treasury Share Transactions
IFRIC 12 Service Concession Arrangements
IFRIC 13 Customer Loyalty Programmes

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the net assets or results of the Group

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Accounting Policies and Critical Accounting Judgements continued
for the year ended 30 September 2007

CRITICAL ACCOUNTING JUDGEMENTS
The Group's principal accounting policies are set out above Management is required to exercise significant judgement and make use of estimates and assumptions in the application of these policies

Areas which management believes require the most critical accounting judgements are

Exceptional items
The Directors consider that items of income or expense which are material and non-recurring by virtue of their nature and amount should be disclosed separately if the financial statements are to fairly present the financial position and financial performance of the Group The Directors label these items collectively as "exceptional items"

Retirement benefit obligations
The Group operates defined benefit schemes Actuarial valuations of the schemes are carried out as determined by the trustees at intervals of not more than three years

The pension cost under IAS 19 is assessed in accordance with the advice of an independent qualified actuary based on the latest actuarial valuation and assumptions determined by the actuary The assumptions are based on information supplied to the actuary by the Company, supplemented by discussions between the actuary and management The assumptions are disclosed in note 10 of the financial statements

Impairment of receivables
At each balance sheet date, each subsidiary evaluates the collectability of trade receivables and records provisions for impairment of receivables based on experience including, for example, comparisons of the relative age of accounts and consideration of actual write-off history The actual level of debt collected may differ from the estimated levels of recovery, which could impact on operating results positively or negatively

Inventory provisions
At each balance sheet date, each subsidiary evaluates the recoverability of inventories and records provisions against these based on an assessment of net realisable values The actual net realisable value of inventory may differ from the estimated realisable values, which could impact on operating results positively or negatively

Impairment of intangible assets
The Group records all assets and liabilities acquired in business acquisitions, including goodwill, at fair value Intangible assets which have an indefinite useful life, principally goodwill, are assessed annually for impairment

The Group is engaged in the development of new products and processes the costs of which are capitalised as intangible assets or tangible fixed assets if, in the opinion of management, there is a reasonable expectation of economic benefits being achieved The factors considered in making these judgements include the likelihood of future orders and the anticipated volumes, margins and duration associated with these

Impairment charges are made if there is significant doubt as to the sufficiency of future economic benefits to justify the carrying values of the assets based upon discounted cash flow projections using an appropriate risk weighted discount factor Rates used were between 10% and 15%

Provisions
Provisions are made in respect of claims and warranties based on the judgement of management taking into account the nature of the claim/warranty, the range of possible outcomes and the defenses open to the company

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Notes to the Group Financial Statements
for the year ended 30 September 2007

SEGMENT INFORMATION 1

Due to the differing natures of the products and their markets, Avon Rubber plc's primary reporting segment is by business The secondary reporting format comprises the geographical segments by origin

Following the disposal of the automotive components business in 2006, the group has split its remaining business into Protection and Defence, Dairy and Other Engineered Products

Primary reporting format - business segments
Year ended 30 September 2007

	Protection and Defence £'000	Dairy £'000	Other Engineered Products £'000	Unallocated £'000	Continuing Total £'000	Discontinued Total £'000	Group £'000
Revenue	37,838	19,071	9,806		66,715		66,715
Segment result	(1,037)	2,975	(700)		1,238		1,238
Finance income				114	114		114
Finance costs				(915)	(915)		(915)
Other finance income				2,489	2,489		2,489
(Loss)/profit before tax	(1,037)	2,975	(700)	1,688	2,926		2,926
Taxation				(717)	(717)		(717)
(Loss)/profit for the year from continuing operations	(1,037)	2,975	(700)	971	2,209		2,209
Loss for the year from discontinued operations						(1,114)	(1,114)
(Loss)/profit for the year	(1,037)	2,975	(700)	971	2,209	(1,114)	1,095
Profit attributable to minority interest							1
Profit attributable to equity shareholders							1,094
							1,095
Segment assets	42,482	6,308	6,325	24,201	79,316	2,173	81,489
Segment liabilities	6,923	1,439	2,161	25,803	36,326	1,707	38,033
Other segment items							
Capital expenditure - intangible assets	2,139	34	272	-	2,445	-	2,445
- property, plant and equipment	2,145	279	325	-	2,749	42	2,791
Depreciation	1,020	488	634	-	2,142	41	2,183
Impairment of property, plant and equipment	-	-	250	-	250	-	250
Amortisation of intangibles	1,035	7	12	-	1,054	-	1,054

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1 SEGMENT INFORMATION (continued)

Year ended 30 September 2006

	Protection and Defence £'000	Dairy £'000	Other Engineered Products £'000	Unallocated £'000	Continuing Total £'000	Discontinued Total £'000	Group £'000
Revenue	32,438	19,116	11,558		63,112		63,112
Segment result before exceptional operating items	(189)	1,619	(1,509)		(79)		(79)
Exceptional operating items	896	789	860		2,545		2,545
Segment result after exceptional operating items	707	2,408	(649)		2,466		2,466
Finance income				123	123		123
Finance costs				(3,493)	(3,493)		(3,493)
Other finance income				2,151	2,151		2,151
Profit/(loss) before tax	707	2,408	(649)	(1,219)	1,247		1,247
Taxation				(2,045)	(2,045)		(2,045)
Profit/(loss) for the year from continuing operations	707	2,408	(649)	(3,264)	(798)		(798)
Loss for the year from discontinued operations						(18,329)	(18,329)
Profit/(loss) for the year	707	2,408	(649)	(3,264)	(798)	(18,329)	(19,127)
Loss attributable to minority interest							(209)
Loss attributable to equity shareholders							(18,918)
							(19,127)
Segment assets	41,147	6,276	6,984	15,634	70,041	2,658	72,699
Segment liabilities	4,789	1,014	3,564	37,473	46,840	1,789	48,629
Other segment items							
Capital expenditure							
- intangibles	4,987	–	–	–	4,987	1,508	6,495
- property, plant and equipment	5,502	188	344	–	6,034	3,040	9,074
Depreciation	398	372	586	–	1,356	5,494	6,850
Impairment of property, plant and equipment	–	–	433	–	433	3,009	3,442
Amortisation of intangibles	869	151	112	–	1,132	1,128	2,260

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SEGMENT INFORMATION (continued) 1

Secondary reporting format - geographical segments
Year ended 30 September 2007

	Europe £'000	North America £'000	Group £'000
Revenue	**23,351**	**43,364**	**66,715**
Segment assets	**39,687**	**41,802**	**81,489**
Capital expenditure - property, plant and equipment	**839**	**1,952**	**2,791**
- intangible assets	**882**	**1,563**	**2,445**

Year ended 30 September 2006	Europe £'000	North America £'000	Group £'000
Revenue	20,336	42,776	63,112
Segment assets	31,371	41,328	72,699
Capital expenditure - property, plant and equipment	2,728	6,346	9,074
- intangible assets	2,352	4,143	6,495

EXCEPTIONAL OPERATING ITEMS 2

The exceptional operating items comprise	2007 £'000	2006 £'000
Profit on disposal of fixed assets	–	4,415
Fixed asset impairment	–	(433)
Other operating charges - continuing	–	(1,437)
Exceptional operating items - continuing	–	2,545

In 2006 the profit on disposal of fixed assets related to the profit on the sale and leaseback of the facility at Hampton Park West, Melksham, UK The fixed asset impairment relates to our UK mixing facility (See note 12)

The other operating charges relate to the restructuring of our UK Protection & Engineered Products continuing operations

In the Consolidated Income Statement, the fixed asset impairment of £433,000 is included within administrative expenses together with the profit on the disposal of fixed assets of £4,415,000 and the other operating charges on continuing business of £1,437,000 disclosed above

The tax effect of the exceptional items in 2006 was nil

Exceptional items relating to discontinued operations are considered in note 6

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3 FINANCE INCOME AND COSTS

	2007 £'000	2006 £'000
Bank loans and overdrafts	(914)	(2,907)
US dollar private placement	-	(509)
Amortisation of loan issue costs	-	(18)
Other interest charges	(1)	(59)
Total interest payable	(915)	(3,493)
Interest receivable	114	123
	(801)	(3,370)

Other finance income represents the excess of the expected return on pension plan assets over the interest cost relating to retirement benefit obligations

	2007 £'000	2006 £'000
Interest cost UK scheme	(12,863)	(12,345)
Expected return on plan assets UK scheme	15,479	14,943
Other finance cost USA scheme	(127)	(447)
	2,489	2,151

4 PROFIT BEFORE TAXATION

	2007 £'000	2006 £'000
Operating profits are shown after crediting		
Rent receivable	78	88
Profit on disposal of property, plant and equipment	-	3,832
and after charging		
Employee benefits	27,211	76,484
Charge relating to employee share schemes (note 24)	138	323
Depreciation on property, plant and equipment		
- owned assets	2,165	6,746
- leased assets	18	104
Impairment of property, plant and equipment	250	3,442
Repairs and maintenance of property, plant and equipment	773	771
Amortisation of intangibles	1,054	2,260
Research and development	1,056	2,913
Impairment of trade receivables	2	20
Loss on foreign exchange	8	327
Operating leases		
- plant and machinery	245	618
- property	1,309	1,424
Services provided to the group (including its overseas subsidiaries) by the group's auditors		
Audit fees in respect of the audit of the accounts of the parent company and consolidation	60	60
Audit fees in respect of the audit of the accounts of subsidiaries of the company	121	135
	181	195
Services in respect of business restructuring	-	434
Other services relating to taxation	212	186
Other business advisory services	52	320
Total fees	445	1,135

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	2007 £'000	2006 £'000
UK prior year adjustment to current tax	–	99
Overseas current tax	304	2,165
Overseas prior year adjustment to current tax	114	(396)
Deferred tax - current year	230	(1,703)
Deferred tax - prior year adjustment	69	1,880
	717	2,045

In addition to the total tax charged to the income statement, a deferred tax charge of £4,606,000 (2006 credit of £115,000) has been recognised directly in equity during the year

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the standard UK tax rate applicable to profits of the consolidated entities as follows

	2007 £'000	2006 £'000
Profit before tax	2,926	1,247
Profit before tax at the standard rate of 30% (2006 30%)	878	374
Permanent differences	(202)	(270)
Losses for which no deferred tax was recognised	(226)	100
Adjustments to tax charge in respect of previous periods	183	1,583
Differences in overseas tax rates	84	258
Tax charge	717	2,045

Deferred tax (assets) and liabilities

Deferred tax is calculated in full on temporary differences under the liability method using applicable local rates
Movements on the deferred tax account were

	2007 £'000	2006 £'000
Liability/(asset) at the beginning of the year	1,192	(92)
Charged to the income statement	299	177
Credited to the income statement on discontinued operations	–	(224)
Charged/(credited) to the statement of recognised income and expense	4,606	(115)
Exchange differences	85	70
Balances transferred on disposals	–	1,376
Liability at the end of the year	6,182	1,192

Deferred tax assets have been recognised in respect of temporary differences giving rise to deferred tax assets where it is probable that these assets will be recovered

Deferred tax liabilities

	Retirement benefit obligations £'000	Accelerated capital allowances £'000	Other £'000	Total £'000
At 30 September 2005	–	5,095	–	5,095
Charged to the income statement	–	(1,654)	(222)	(1,876)
Balances transferred on disposals	–	(3,284)	2,080	(1,204)
At 30 September 2006	–	157	1,858	2,015
Charged to the income statement	–	115	72	187
Charged to the statement of recognised income and expense	4,586	–	–	4,586
At 30 September 2007	**4,586**	**272**	**1,930**	**6,788**

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5 TAXATION (continued)

Deferred tax assets

	Tax losses £'000	Retirement benefit obligations £'000	Other £'000	Total £'000
At 30 September 2005	(2,658)	(2,420)	(109)	(5,187)
Charged to the income statement	1,752	(32)	109	1,829
Charged to the statement of recognised income and expense	–	(115)	–	(115)
Exchange differences	–	70	–	70
Balances transferred on disposals	906	1,674	–	2,580
At 30 September 2006	–	(823)	–	(823)
Charged to the income statement	–	113	–	113
Charged to the statement of recognised income and expense	–	20	–	20
Exchange differences	–	84	–	84
At 30 September 2007	–	**(606)**	–	**(606)**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority The offset amounts are as follows

	2007 £'000	2006 £'000
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	(334)	(215)
Deferred tax asset to be recovered within 12 months	–	(886)
	(334)	(1,101)
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	6,251	2,293
Deferred tax liability to be recovered within 12 months	265	–
	6,516	2,293
Net deferred tax liabilities	6,182	1,192

The Group has not recognised deferred tax assets in respect of the following, as it is uncertain when the criteria for recognition of those assets will be met

	2007 £'000	2006 £'000
Losses	(7,059)	(4,158)
Accelerated capital allowances	(345)	(1,550)
Retirement benefit obligations	–	(3,599)
Other	(406)	(305)
	(7,810)	(9,612)

The 2007 and 2006 unprovided deferred tax assets relate solely to the UK

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RESULTS FROM DISCONTINUED OPERATIONS — 6

	Year ending 30 Sept 2007 £'000	Year ending 30 Sept 2006 £'000
Revenue	7,006	167,644
Operating loss from discontinued operations	(1,114)	(885)
Operating loss is analysed as		
Before exceptional items	(1,114)	3,041
Exceptional operating items	–	(3,926)
Taxation on profits from discontinued operations	–	582
Loss on disposal	–	(18,026)
Loss for the year from discontinued operations	(1,114)	(18,329)

The discontinued operation consists of the UK mixing operation which was being actively marketed for sale at the year end and additionally, in 2006, the disposed automotive components and business machine businesses

2006 numbers have been restated to include the revenue and loss of the UK mixing operation

The assets and liabilities directly attributable to the UK mixing operation are shown on the balance sheet as assets and liabilities held for sale Assets of £2,173,000 consist of property, plant and equipment of £283,000, inventories of £1,202,000, trade receivables of £588,000 and other receivables of £100,000 Liabilities of £1,707,000 consist of trade payables of £1,630,000 and other payables of £77,000

DIVIDENDS — 7

	2007 £'000	2006 £'000
Dividends on equity shares		
Final paid 4 8p per share (2006 4 8p per share)	1,326	1,315
Interim paid 3 7p per share (2006 3 7p per share)	1,027	1,017
	2,353	2,332

In addition, the Directors are proposing a final dividend in respect of the financial year ending 30 September 2007 of 4 8p per share which will absorb an estimated £1,366,000 of shareholders' funds In accordance with IFRS the final dividend is not recorded as a liability nor reflected in the income statement

Dividends payable in respect of 666,191 shares (2006 666,190) held by an Employee Share Ownership Trust (see note 19) have been waived

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8 EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share (EPS) is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the employee share ownership trust The company has dilutive potential ordinary shares in respect of the Sharesave Option Scheme (see page 22) and the Performance Share Plan (see page 22)

Adjusted earnings/(loss) per share have been calculated in addition to basic and diluted figures since, in the opinion of the directors, these provide further information for an understanding of the Group's performance

Reconciliations of the earnings/(loss) and weighted average number of shares used in the calculations are set out below

	2007 £'000	2006 £'000
Basic EPS		
Profit/(loss) attributable to equity shareholders of the Company	1,094	(18,918)
Weighted average number of ordinary shares in issue (thousands)	27,885	27,455
Basic earnings/(loss) per share (pence)	3 9	(68 9)
EPS from continuing operations		
Profit/(loss) attributable to equity shareholders of the Company	1,094	(18,918)
Loss from discontinued operations attributable to equity shareholders of the Company	1,114	18,329
Profit/(loss) from continuing operations attributable to equity shareholders of the Company	2,208	(589)
Weighted average number of ordinary shares in issue (thousands)	27,885	27,455
Basic earnings/(loss) per share (pence)	7 9	(2 1)
EPS from discontinued operations		
Loss on sale of subsidiaries (net of tax)	–	(18,026)
Pre tax losses from discontinued operation	(1,114)	(885)
Tax relating to discontinued operations	–	582
Loss from discontinued operations attributable to equity shareholders of the Company	(1,114)	(18,329)
Weighted average number of ordinary shares in issue (thousands)	27,885	27,455
Basic loss per share (pence)	(4 0)	(66 8)

The company has dilutive potential ordinary shares in respect of the Sharesave Option Scheme and Performance Share Plan The diluted earnings of 3 8p per share is based on a profit of £1,094,000 and 28,727,000 ordinary shares being the weighted average of the shares in issue during the year adjusted to assume conversion of all dilutive potential ordinary shares

9 EMPLOYEES

The total remuneration and associated costs during the year were

	2007 £'000	2006 £'000
Wages and salaries	22,236	61,906
Social security costs	2,222	9,612
Other pension costs	2,753	4,966
Share awards costs	138	323
	27,349	76,807

Detailed disclosures of Directors' remuneration and share options are given on pages 21 and 22

The average number of employees (including Executive Directors) during the year was

	2007 Number	2006 Number
By business segment		
Protection and Defence	500	331
Dairy	212	199
Other Engineered Products	131	191
Total Continuing operations	843	721
Discontinued operations	72	3,348
	915	4,069

At the end of the financial year the total number of employees in the Group was 919 (2006 835)

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Key management compensation

	2007 £'000	2006 £'000
Salaries and other employee benefits	**842**	988
Post employment benefits	**57**	83
Compensation for loss of office	**96**	–
	995	1,071

The key management figures given above include the main board directors plus the Group Director of Human Resources, and the Managing, Operations and Marketing Directors of the Protection and Defence business

PENSIONS AND OTHER RETIREMENT BENEFITS 10

Retirement benefit assets and liabilities can be analysed as follows

	UK £'000	USA £'000	**2007 Total £'000**	2006 Total £'000
Pension asset/(liability)	16,380	(1,730)	**14,650**	(14,598)
Deferred tax (liability)/asset	(4,586)	606	**(3,980)**	823
Net pension asset/(liability)	11,794	(1,124)	**10,670**	(13,775)

Full disclosures are provided in respect of UK defined benefit pensions and USA post-retirement benefits below

UK

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 employed prior to 31 January 2003 The scheme is now closed to new entrants 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 finalised actuarial valuation of the plan was carried out as at 1 April 2006 when the market value of the plan's assets was £258 2 million The actuarial value of those assets represented 101% of the value of the benefits which had accrued to members, after allowing for future increases in salaries

Employer contributions to the plan were 10 3% of salaries from 1 October 2006, reducing to 8 2% from 1 May 2007, with an additional payments of £25,225 per month, in respect of scheme expenses, from 1 May 2007

An updated actuarial valuation for IAS 19 purposes was carried out by an independent actuary at 30 September 2007 using the projected unit method

The main financial assumptions used by the independent qualified actuaries to calculate the liabilities under IAS 19 are set out below

	30 Sept 2007 % p a	30 Sept 2006 % p a	30 Sept 2005 % p a
Inflation	**3 15**	2 80	2 65
Rate of general long-term increase in salaries	**3 65**	3 30	3 40
Pension increases post August 2005	**2 35**	2 20	2 00
Pension increases April 1997 to August 2005	**3 15**	2 80	2 65
Pension increases pre April 1997	**3 15**	2 80	2 65
Discount rate for scheme liabilities	**5 90**	5 00	5 00

Mortality rate

Assumptions regarding future mortality experience are set based on advice, published statistics and experience

The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows

	2007	2006
Male	**20 6**	20 6
Female	**23 4**	23 4

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date, is as follows

	2007	2006
Male	**21 3**	21 3
Female	**24 0**	24 0

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10 PENSIONS AND OTHER RETIREMENT BENEFITS (continued)

The assets in the scheme and the expected rate of return were

	Long-term rate of return expected at 30 September 2007 % p a	**Value at 30 September 2007 £'000**	Long term rate of return expected at 30 September 2006 % p a	Value at 30 September 2006 £'000	Long term rate of return expected at 30 September 2005 % p a	Value at 30 September 2005 £'000
Equities	**7 90**	**91,408**	7 40	178,278	7 40	169,648
Property	**n/a**	**–**	7 40	1,748	7 40	1,458
Government bonds	**4 90**	**3,771**	4 40	66,417	4 40	60,182
Liability driven investments	**5 10**	**119,568**	n/a	–	n/a	–
Other	**6 20**	**37,023**	4 60	3,246	4 60	4,398
Average expected long term rate of return/Total fair value of assets	**6 28***	**251,770**	6 57 *	249,689	6 58 *	235,686

* The overall expected rate of return on scheme assets is a weighted average of the individual expected rates of return on each asset class

Reconciliation of funded status to balance sheet

	Value at 30 September 2007 £'000	Value at 30 September 2006 £'000	Value at 30 September 2005 £'000
Fair value of plan assets	**251,770**	249,689	235,686
Present value of funded defined benefit obligations	**(235,390)**	(261,936)	(250,855)
Asset/(liability) recognised on the balance sheet	**16,380**	(12,247)	(15,169)

Analysis of income statement

	Year ending 30 September 2007 £'000	Year ending 30 September 2006 £'000
Current service cost	**1,021**	1,626
Interest cost	**12,863**	12,345
Expected return on plan assets	**(15,479)**	(14,943)
Curtailment gain	**–**	(1,338)
Gain recognised in income statement	**(1,595)**	(2,310)

The curtailment gain in 2006 relates to the disposal of the Automotive business and has been included in discontinued operations in the income statement

Changes to the present value of the defined benefit obligation during the year

	Year ending 30 September 2007 £'000	Year ending 30 September 2006 £'000
Opening defined benefit obligation	**261,936**	250,855
Current service cost	**1,021**	1,626
Interest cost	**12,863**	12,345
Contributions by plan participants	**581**	1,009
Actuarial (gains)/losses on plan liabilities*	**(29,714)**	8,331
Net benefits paid out	**(11,297)**	(10,892)
Curtailments	**–**	(1,338)
Closing defined benefit obligation	**235,390**	261,936

* Includes changes to the actuarial assumptions

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Changes to the fair value of scheme assets during the year

	Year ending 30 September 2007 £'000	Year ending 30 September 2006 £'000
Opening fair value of plan assets	249,689	235,686
Expected return on plan assets	15,479	14,943
Actuarial (losses)/gains on plan assets	(3,583)	6,487
Contributions by the employer	900	2,456
Contributions by plan participants	582	1,009
Net benefits paid out	(11,297)	(10,892)
Closing fair value of plan assets	251,770	249,689

Actual return on plan assets

	Year ending 30 September 2007 £'000	Year ending 30 September 2006 £'000
Expected return on plan assets	15,479	14,943
Actuarial (loss)/gain on plan assets	(3,583)	6,487
Actual return on plan assets	11,896	21,430

Analysis of amounts recognised in statement of recognised income and expense

	Year ending 30 September 2007 £'000	Year ending 30 September 2006 £'000
Total actuarial gains/(losses)	26,131	(1,844)
Change in irrecoverable surplus, effect of limit in para 58(b)	-	-
Total gains/(losses) in SoRIE	26,131	(1,844)
Cumulative amount of gains recognised in SoRIE	28,958	2,827

History of asset values, defined benefit obligation, surplus/(deficit) in scheme and experience gains and losses

	30 September 2007 £'000	30 September 2006 £'000	30 September 2005 £'000
Fair value of plan assets	251,770	249,689	235,686
Defined benefit obligation	(235,390)	(261,936)	(250,855)
Surplus/(deficit) in plan	16,380	(12,247)	(15,169)

	Year ending 30 September 2007 £'000	Year ending 30 September 2006 £'000	Year ending 30 September 2005 £'000
Experience (losses)/gains on plan assets	(3,583)	6,487	26,384
Experience (losses)/gains on plan liabilities	(232)	12,072	(768)

In addition, commencing 1 February 2003, a defined contribution scheme was introduced for new employees within the UK The cost to the Group in respect of this scheme for the year ended 30 September 2007 was £100,000 (2006 £122,000)

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10 PENSIONS AND OTHER RETIREMENT BENEFITS (continued)

USA post retirement benefits

The Group's USA subsidiaries operate a medical cover scheme under the terms of which retiring employees who have ten years service after the age of 52 and their dependents 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 liabilities of this unfunded benefit scheme were valued by an independent actuary at 1 October 2007, based on the following principal assumptions

	2007	2006	2005	2004
Discount rate	**6 4%**	5 75%	5 25%	5 75%
Healthcare cost trend rate	**10% reducing to 5 5% by 2009**	10% reducing to 5 5% by 2009	9 0% reducing to 5 5% by 2009	10 0% reducing to 5 5% by 2009

Analysis of amount (credited)/charged to operating profit in respect of post retirement benefits

	2007 £'000	2006 £'000
Current service cost	**75**	335
Past service credit	**(460)**	10
Total operating (credit)/charge	**(385)**	345

Movement in provision during the year

	2007 £'000	2006 £'000
Provision at the beginning of the year	**(2,351)**	(6,915)
Movement		
Current service cost	**(75)**	(335)
Contributions	**117**	181
Past service credit/(cost)	**460**	(10)
Other finance costs	**(127)**	(447)
Transferred on sale of subsidiaries	**–**	5,077
Actuarial gain/(loss)	**56**	(231)
Exchange difference	**190**	329
Provision at the end of the year	**(1,730)**	(2,351)
Related deferred tax asset	**606**	823
Net post retirement liability	**(1,124)**	(1,528)

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	Goodwill £'000	Patents and distribution networks £'000	Development expenditure £'000	Other £'000	Total £'000
At 1 October 2005					
Cost	16,123	3,338	16,663	3,322	39,446
Accumulated amortisation and impairment	–	(74)	(6,526)	(2,550)	(9,150)
Net book amount	**16,123**	**3,264**	**10,137**	**772**	**30,296**
Year end 30 September 2006					
Opening book amount	16,123	3,264	10,137	772	30,296
Exchange differences	(395)	–	(145)	–	(540)
Additions	–	–	6,495	–	6,495
Disposals	–	–	(982)	(7)	(989)
Disposal of business	(10,027)	–	(5,706)	(215)	(15,948)
Amortisation	–	(265)	(1,476)	(519)	(2,260)
Closing net book amount	**5,701**	**2,999**	**8,323**	**31**	**17,054**
At 30 September 2006					
Cost	5,701	3,338	8,671	788	18,498
Accumulated amortisation and impairment	–	(339)	(348)	(757)	(1,444)
Net book amount	**5,701**	**2,999**	**8,323**	**31**	**17,054**
Year end 30 September 2007					
Opening book amount	5,701	2,999	8,323	31	17,054
Exchange differences	(190)	(301)	(649)	–	(1,140)
Additions	–	–	2,354	91	2,445
Amortisation	–	(264)	(759)	(31)	(1,054)
Closing net book amount	**5,511**	**2,434**	**9,269**	**91**	**17,305**
At 30 September 2007					
Cost	5,511	3,004	10,034	1,090	19,639
Accumulated amortisation and impairment	–	(570)	(765)	(999)	(2,334)
Net book amount	**5,511**	**2,434**	**9,269**	**91**	**17,305**

The goodwill at 30 September 2007 relates to the acquisition of International Safety Instruments Inc (ISI) in 2005 This cash generating unit has been tested for impairment in accordance with IAS 36 on a value in use basis, discounting budgeted cash flows for 2008, cash flows from the Group's approved 3 year plan for 2009 and 2010, assuming a constant level of cash flows thereafter, and using a pre-tax discount rate of 15% No impairment charge has resulted from this test

Patents are amortised over their expected useful lives of between 12 and 16 years

Distribution agreements are not amortised, as they are not for fixed periods, but written off in full when agreements are terminated

Development expenditure is amortised over an average duration of 5 years

Other intangible assets are primarily computer software which is amortised over an average duration of between 3 and 4 years

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Notes to the Group Financial Statements continued
for the year ended 30 September 2007

12 PROPERTY, PLANT AND EQUIPMENT

	Freeholds £'000	Long leaseholds £'000	Short leaseholds £'000	Plant and machinery £'000	Total £'000
At 1 October 2005					
Cost	44,879	417	190	132,369	177,855
Accumulated depreciation	(18,237)	(183)	(74)	(88,067)	(106,561)
Net book amount	**26,642**	**234**	**116**	**44,302**	**71,294**
Year ended 30 September 2006					
Opening book amount	26,642	234	116	44,302	71,294
Exchange differences	(135)	(4)	(5)	(650)	(794)
Additions	407	–	–	8,667	9,074
Disposals	(7,567)	–	–	(1,665)	(9,232)
Impairment	(433)	–	–	(3,009)	(3,442)
Depreciation charge	(679)	(26)	(15)	(6,130)	(6,850)
Disposal of businesses	(11,222)	(204)	(1)	(27,759)	(39,186)
Reclassifications	(2,270)	–	–	2,270	–
Closing net book amount	**4,743**	**–**	**95**	**16,026**	**20,864**
At 30 September 2006					
Cost	13,746	–	161	38,338	52,245
Accumulated depreciation and impairment	(9,003)	–	(66)	(22,312)	(31,381)
Net book amount	**4,743**	**–**	**95**	**16,026**	**20,864**
Year ended 30 September 2007					
Opening book amount	4,743	–	95	16,026	20,864
Exchange differences	(231)	–	(7)	(643)	(881)
Additions	102	–	10	2,679	2,791
Disposals	–	–	(2)	(15)	(17)
Impairment	–	–	–	(250)	(250)
Depreciation charge	(63)	–	(15)	(2,105)	(2,183)
Reclassified as assets held for sale	–	–	–	(283)	(283)
Closing net book amount	**4,551**	**–**	**81**	**15,409**	**20,041**
At 30 September 2007					
Cost	13,548	–	133	32,622	46,303
Accumulated depreciation and impairment	(8,997)	–	(52)	(17,213)	(26,262)
Net book amount	**4,551**	**–**	**81**	**15,409**	**20,041**

The impairment charge in 2006 arises from a review of the mixing facility after the disposal of the Automotive business (a major customer) The property, plant and equipment relating to the mixing facility have been valued at fair value

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INVENTORIES 13

	2007 £'000	2006 £'000
Raw materials	**4,282**	5,561
Work in progress	**2,172**	853
Finished goods	**5,072**	4,843
	11,526	11,257

The above numbers include provisions for inventory write downs of £483,000 (2006 £381,000)

The cost of inventories recognised as an expense and included in cost of sales amounted to £30,854,000 (2006 £92,925,000) of which £26,066,000 (2006 £25,476,000) relates to continuing business

TRADE AND OTHER RECEIVABLES 14

	2007 £'000	2006 £'000
Trade receivables	**9,841**	11,289
Less provision for impairment of receivables	**(31)**	(80)
Trade receivables - net	**9,810**	11,209
Prepayments	**672**	727
Other receivables	**2,291**	3,594
	12,773	15,530
Less non-current portion	**–**	–
Current portion	**12,773**	15,530

Other receivables include £956,000 (2006 £956,000) in respect of a rent deposit relating to the company's premises in Melksham, Wiltshire The remaining balance comprises sundry receivables which are not individually significant for disclosure

Management considers the carrying value of trade and other receivables approximates the fair value

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15 CASH AND CASH EQUIVALENTS

	2007 £'000	2006 £'000
Cash at bank and in hand	791	1,823
Current asset investments	166	5,070
	957	6,893

Cash at bank and in hand balances are denominated in a number of foreign currencies and earn interest based on national rates Investments relate to holdings in sterling and US dollar money and bond funds, the returns on which relate to the performance of the underlying assets

16 TRADE AND OTHER PAYABLES

	2007 £'000	2006 £'000
Trade payables	4,966	7,510
Other taxation and social security	359	428
Other payables	3,673	8,233
Accruals	4,908	3,405
	13,906	19,576
Less non-current portion	–	(1,071)
Current portion	13,906	18,505

Other payables include £982,000 (2006 £1,071,000) of deferred consideration following the purchase of International Safety Instruments Inc (ISI) in July 2005 Other payables also include £1,422,000 (2006 £2,514,000) of claims held by Nova Insurance Limited The remaining balance comprises sundry payables which are not individually significant for disclosure

17 BORROWINGS

	2007 £'000	2006 £'000
Current		
Bank loans	5,399	8,000
Bank overdrafts	5,994	–
Total borrowings	11,393	8,000

The maturity profile of the Group's borrowings at the year end was as follows

In one year or less, or on demand	11,393	8,000
Between 1 and 2 years	–	–
Between 2 and 5 years	–	–
	11,393	8,000

The carrying amounts of the Group's borrowings are denominated in the following currencies

	2007 £'000	2006 £'000
Sterling	4,781	8,000
US dollars	6,612	–
	11,393	8,000

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BORROWINGS (continued) 17

The Group has the following undrawn committed borrowing facilities

	Floating rate £'000	2007 Total £'000	2006 Total £'000
Expiring within one year	5,389	5,389	2,035
Expiring between one and two years	–	–	6,000
Total undrawn committed borrowing facilities	5,389	5,389	8,035
Bank loans and overdrafts utilised	10,697	10,697	8,000
Utilised in respect of guarantees	368	368	642
Total Group facilities	16,454	16,454	16,677

Subsequent to year end, the Group has signed agreements with its two principal bankers for new facilities of £17 5 million and $5 0 million on similar terms to existing facilities, committed to 31 March 2009

The facilities are secured by charges over UK assets and certain shares in Group companies

The effective interest rates at the balance sheet dates were as follows

	2007 Sterling %	2007 Dollar %	2006 Sterling %
Bank loans	–	7 0	6 5
Bank overdrafts	7 6	–	–

The carrying amounts and fair value of the Group's borrowings are as follows

	2007 Book value £'000	2007 Fair value £'000	2006 Book value £'000	2006 Fair value £'000
Bank loans and overdrafts under 1 year	11,393	11,393	8,000	8,000

PROVISIONS FOR LIABILITIES AND CHARGES 18

	Reorganisation provision £'000	Automotive disposal £'000	Total £'000
Balance at 30 September 2006	1,526	1,900	3,426
Charged/(credited) to income statement	100	(300)	(200)
Payments in the year	(889)	(300)	(1,189)
Balance at 30 September 2007	**737**	**1,300**	**2,037**

The reorganisation provision and the provision relating to the disposal of Automotive are expected to be fully utilised during the next year

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19 SHARE CAPITAL

	2007 No of shares	2007 Ordinary shares £'000	2007 Share premium £'000	2006 No of shares	2006 Ordinary shares £'000	2006 Share premium £'000
Authorised						
Ordinary shares of £1 each	37,900,000	37,900	–	37,900,000	37,900	–
Called up allotted and fully paid						
At the beginning of the year	28,275,284	28,275	34,191	28,121,218	28,121	34,070
Proceeds from shares issued pursuant to Option Schemes	849,520	850	516	154,066	154	121
At the end of the year	29,124,804	29,125	34,707	28,275,284	28,275	34,191

Details of outstanding share options and movements in share options during the year are given in the Remuneration Report on page 22

At 30 September 2007, 666,191 (2006 666,190) ordinary shares were held by a trust in respect of obligations under the 2002 Performance Share Plan Dividends on these shares have been waived

20 CHANGES IN EQUITY

	Share capital £'000	Share premium £'000	Retained earnings £'000	Revaluation reserve £'000	Capital redemption reserve £'000	Translation reserve £'000	Total £'000
At 1 October 2005	28,121	34,070	(18,114)	1,751	500	606	46,934
Loss for the year attributable to equity shareholders	–	–	(18,918)	–	–	–	(18,918)
Dividends paid	–	–	(2,331)	–	–	–	(2,331)
Transfer from revaluation reserve to income statement	–	–	1,751	(1,751)	–	–	–
Unrealised exchange differences on overseas investments	–	–	–	–	–	(809)	(809)
Movement in respect of employee share scheme	–	–	323	–	–	–	323
Actuarial loss recognised in retirement scheme	–	–	(2,075)	–	–	–	(2,075)
Movement on deferred tax relating to retirement benefit obligations	–	–	115	–	–	–	115
New share capital subscribed	154	121	–	–	–	–	275
At 30 September 2006	28,275	34,191	(39,249)	–	500	(203)	23,514
Profit for the year attributable to equity shareholders	–	–	1,094	–	–	–	1,094
Dividends paid	–	–	(2,353)	–	–	–	(2,353)
Unrealised exchange differences on overseas investments	–	–	–	–	–	(2,441)	(2,441)
Movement in respect of employee share scheme	–	–	138	–	–	–	138
Actuarial gain recognised in retirement scheme	–	–	26,187	–	–	–	26,187
Movement on deferred tax relating to retirement benefit obligations	–	–	(4,606)	–	–	–	(4,606)
New share capital subscribed	850	516	–	–	–	–	1,366
At 30 September 2007	29,125	34,707	(18,789)	–	500	(2,644)	42,899

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	2007 £'000	2006 £'000
Continuing operations		
Profit/(loss) for the financial year	**2,209**	(798)
Adjustments for		
Tax	**717**	2,045
Depreciation	**2,142**	1,356
Impairment of fixed assets	**250**	433
Decrease in pension liabilities	**(383)**	(823)
Amortisation and impairment of intangibles	**1,054**	1,132
Amortisation of loan issue cost	**–**	83
Finance income	**(114)**	(123)
Finance costs	**915**	3,493
Other finance income	**(2,489)**	(2,151)
Profit on disposal of property, plant and equipment	**–**	(4,391)
Movement in respect of employee share scheme	**138**	323
Increase in inventories	**(2,434)**	(2,914)
Decrease/(increase) in receivables	**1,358**	(3,579)
(Increase)/decrease in payables and provisions	**(4,587)**	4,013
Cash used in continuing operations	**(1,224)**	(1,901)
Discontinued operations		
Loss for the financial year	**(1,114)**	(18,329)
Adjustments for		
Tax	**–**	(582)
Depreciation	**41**	5,494
Impairment of property, plant and equipment	**–**	3,009
Loss on sale of subsidiaries	**–**	18,026
Amortisation and impairment of intangibles	**–**	1,128
Profit on disposal of property, plant and equipment	**–**	559
Decrease in inventories	**298**	420
Decrease in receivables	**188**	9,514
Increase in payables and provisions	**(83)**	(9,503)
Cash (used in)/generated from discontinued operations	**(670)**	9,736
Cash (used in)/generated from operations	**(1,894)**	7,835

Cash flows relating to the discontinued operations are as follows

	2007			2006		
	Automotive Components	**Other Engineered Products**	**Discontinued Total**	Automotive components	Other Engineered Products	Discontinued Total
Cash flows from operating activities	–	**(670)**	**(670)**	13,011	(3,275)	9,736
Cash flows from investing activities	–	**(42)**	**(42)**	48,210	(88)	48,122
Cash flow from financing activities	–	–	–	–	–	–
	–	(712)	(712)	61,221	(3,363)	57,858

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22 ANALYSIS OF NET DEBT

This note sets out the calculation of net debt, a measure considered important in explaining our financial position

	As at 1 Oct 2006 £'000	Cash flow £'000	Exchange movements £'000	**As at 30 Sept 2007 £'000**
Cash at bank and in hand	1,823	(957)	(75)	**791**
Overdrafts	–	(6,019)	25	**(5,994)**
Current asset investments classified as cash equivalents	5,070	(4,843)	(61)	**166**
Net cash and cash equivalents	6,893	(11,819)	(111)	**(5,037)**
Debt due within 1 year	(8,000)	2,488	113	**(5,399)**
	(1,107)	(9,331)	2	**(10,436)**

23 OTHER FINANCIAL COMMITMENTS

	2007 £'000	2006 £'000
Capital expenditure committed	**96**	192

Capital expenditure committed represents the amount contracted in respect of property, plant and equipment at the end of the financial year for which no provision has been made in the financial statements

The future aggregate minimum lease payments under non-cancellable operating leases are

	2007		2006	
	Land and buildings £'000	**Other assets £'000**	Land and buildings £'000	Other assets £'000
For leases expiring				
Within 1 year	**1,356**	**149**	1,581	15
In 2-5 years	**4,724**	**142**	4,604	150
Over 5 years	**7,786**	**–**	7,295	–
	13,866	**291**	13,480	165

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

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SHARE BASED PAYMENTS 24

The company operates an equity settled share based compensation plan and an employee Sharesave Option Scheme

Details of these Schemes, awards granted and options outstanding are set out in the remuneration report

The charge to the Income Statement of £138,000 (2006 £323,000) in respect of Executive and SAYE options granted after 7 November 2002 has been calculated using the Black Scholes pricing model and the following principal assumptions

		2007		2006
	SAYE	**PSP**	SAYE	PSP
Weighted average fair value	**0 48**	**0 92**	0 52	1 56
Key assumptions used				
Weighted average share price (£)	**2 00**	**1 71**	2 00	1 78
Range of exercise prices (£)	**1 33-1 72**	**0 0**	1 33-1 69	0 0
Volatility (%)	**25**	**25**	25	25
Range of risk-free interest rate (%)	**4 13-5 13**	**4 22-4 91**	4 13-5 13	4 22-4 54
Range of expected option term (yrs)	**3 0-7 0**	**3 0**	3 0-7 0	3 0
Dividend yield (%)	**4 5**	**4 5**	4 5	4 5

RELATED PARTY TRANSACTIONS 25

During 2005 the Group purchased International Safety Instruments Inc (ISI) from the Donald Dawson Family Limited Partnership, an entity controlled by Donald W Dawson Donald W Dawson continued to be employed by ISI until 30 September 2007 and since that time has continued to work for Avon Rubber on a consultancy basis

Summary of related party transactions
Dawson Associates - trading $669,732 (2006 $1,198,681), ending receivable balance of $93,114 (2006 $125,094)
Lease payments made to Donald Dawson - $340,236 (2006 $340,236)

Donald Dawson is also due to receive £982,000 in January 2008 as deferred consideration on the sale of ISI to Avon in July 2005

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26 GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

	Group interest	Country in which incorporated
Held by Parent Company		
Avon Polymer Products Limited		UK
Avon Rubber Overseas Limited		UK
Avon Rubber Pension Trust Limited		UK
Held by Group undertakings		
Avon Engineered Fabrications Inc		USA
Avon Hi-Life Inc		USA
Avon Milk-Rite Inc		USA
Avon Protection Systems Inc		USA
Avon Rubber & Plastics Inc		USA
Avon-Ames Limited	51%	UK
International Safety Instruments Inc		USA
Nova Insurance Limited		Guernsey
PHT Inc		USA
Undertakings in which the Group has a participating interest		
Longbore Inc	9%	USA

Shareholdings are ordinary shares and, except where shown, undertakings are wholly owned by the group and operate primarily in their country of incorporation

All companies have a year ending in September

Avon Rubber Pension Trust Limited, Nova Insurance Limited and Longbore Inc are, respectively, a pension fund trustee, an insurer and a pollution remediation contractor Avon Rubber Overseas Limited, PHT Inc 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

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

Company Number 32965

Index to Parent Company Financial Statements
for the year ended 30 September 2007

NOTE		PAGE

Independent Auditors' Report
for the year ended 30 September 2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AVON RUBBER p l c

We have audited the parent company financial statements of Avon Rubber plc for the year ended 30 September 2007 which comprise the Balance Sheet and the related notes These parent company financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Directors' Remuneration Report that is described as having been audited

We have reported separately on the Group Financial Statements of Avon Rubber p l c for the year ended 30 September 2007

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements The information given in the Directors' Report includes that specific information presented in the Operating and Financial Reviews that is cross referred from the Business Review section of the Directors' Report

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement and the Operating and Financial Review We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements Our responsibilities do not extend to any other information

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

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

OPINION

In our opinion

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 30 September 2007,

- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and

- the information given in the Directors' Report is consistent with the parent company financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol
18 December 2007

Company Number 32965

Parent Company Balance Sheet
at 30 September 2007

	Note	£'000	2007 £'000	£'000	2006 £'000
Fixed assets					
Tangible assets	4		**5,017**		5,277
Investments	5		**72,885**		72,885
			77,902		78,162
Current assets					
Debtors - amounts falling due within one year	7	**45,551**		41,612	
Debtors - amounts falling due after more than one year	7	**956**		956	
Cash at bank and in hand		**160**		5,616	
		46,667		48,184	
Creditors - amounts falling due within one year	8	**22,230**		19,867	
Net current assets			**24,437**		28,317
Total assets less current liabilities			**102,339**		106,479
Provisions for liabilities and charges	10	**236**		453	
			236		453
Net assets			**102,103**		106,026
Capital and reserves					
Share capital	11		**29,125**		28,275
Share premium account	12		**34,707**		34,191
Capital redemption reserve	12		**500**		500
Profit and loss account	12		**37,771**		43,060
Total shareholders' funds	13		**102,103**		106,026

These financial statements were approved by the board of directors on 18 December 2007 and were signed on its behalf by

The Rt Hon Sir Richard Needham
T K P Stead

Company Number 32965

Parent Company Accounting Policies
for the year ended 30 September 2007

ACCOUNTING POLICIES
The principal accounting policies adopted in the preparation of these financial statements are set out below These policies have been consistently applied to all the years presented, unless otherwise stated

BASIS OF PREPARATION
The accounts have been prepared on a going concern basis and in accordance with the Companies Act 1985, as amended and with all applicable accounting standards in the United Kingdom (UK GAAP) under the historical cost convention modified to include the revaluation of certain properties

As permitted by Section 230(3) of the Companies Act 1985, the Company's entity profit and loss account and statement of total recognised gains and losses have not been presented

The Company is exempt under the terms of FRS1 (Revised 1996) "Cash Flow Statements" from the requirement to publish its own cash-flow statement, as its cash-flows are included within the consolidated cash-flow statement of the Group

FOREIGN CURRENCIES
Foreign currency transactions are recorded at the exchange rate ruling on the date of transaction Foreign exchange gains and losses resulting from the settlement of such transactions, and from the retranslation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account

DEFERRED TAXATION
Full provision (on an undiscounted basis) is made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in the respective tax computations Deferred tax assets are recognised only to the extent that they are more likely than not to be recovered in the short term

IMPAIRMENT OF FIXED ASSETS
Impairment reviews are undertaken if events or changes in circumstances indicate that the carrying amount of the tangible fixed assets may not be recoverable If the carrying amount exceeds its recoverable amount (being the higher of the value in use and the net realisable value) then the fixed asset is written down accordingly Where recoverable amounts are based on value in use, discount rates of typically between 10% and 15% are used depending on the risk attached to the underlying asset

INVESTMENT IN SUBSIDIARY UNDERTAKINGS
Investment in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment Impairment reviews are performed by the directors when there has been an indication of potential impairment

LEASED ASSETS
Operating lease rentals are charged against profit over the term of the lease on a straight line basis

PENSIONS
The Company 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 employed prior to 31 January 2003 The scheme is now closed to new entrants Scheme assets are measured using market values while liabilities are measured using the projected unit method The multi-employer exemption has been taken and no asset or provision has been reflected in the parent company's balance sheet for any surplus or deficit arising in respect of pension obligations

The Company also provide pensions by contributing to defined contribution schemes The charge in the profit and loss account reflects the contributions paid and payable to these schemes during the period Full disclosures of the UK pension schemes have been provided in the Group Financial Statements

PROVISIONS FOR LIABILITIES AND CHARGES
Provisions are recognised when a liability exists at the year end that can be measured reliably, there is an obligation to one or more third parties as a result of past transactions or events and there is an obligation to transfer economic benefits in settlement

Provisions are calculated based on managements best estimate of the expenditure required to settle the present obligation at the balance sheet date, after due consideration of the risks and uncertainties that surround the underlying event Provision for reorganisation costs are made where a detailed plan has been approved and an expectation has been raised in those affected by the plan that the Company will carry out the reorganisation

TANGIBLE FIXED ASSETS
Tangible fixed assets are stated at cost, less amounts provided for depreciation and any provision for impairment Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use 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 Plant and machinery are depreciated on the straight line method at rates varying between 6% and 50% per annum

RELATED PARTIES
The company has taken advantage of the dispensation under FRS 8, Related Party Transactions, not to disclose transactions or balances with other Group companies

SHARE BASED PAYMENT
The company operates a number of equity-settled, share-based compensation plans The fair value of the employee services received in exchange for the grant of the options is recognised as an expense The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets) Non-market vesting conditions are included in assumptions about the number of options that are expected to vest At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest It recognises the impact of the revision to original estimates, if any, in the income statement

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised

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Notes to the Parent Company Financial Statements
for the year ended 30 September 2007

PARENT COMPANY 1

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 loss for the financial year was £5,427,000 (2006 £6,901,000)

The audit fee in respect of the parent company was £60,000 (2006 £60,000)

DIVIDENDS 2

	2007 £'000	2006 £'000
Dividends on equity shares		
Final paid 4 8p per share (2006 4 8p per share)	1,326	1,315
Interim paid 3 7p per share (2006 3 7p per share)	1,027	1,017
	2,353	2,332

In addition, the directors are proposing a final dividend in respect of the financial year ending 30 September 2007 of 4 8p per share which will absorb an estimated £1,366,000 of shareholders' funds In accordance with FRS21 the final dividend is not recorded as a liability nor reflected in the profit and loss account

Dividends payable in respect of 666,191 shares (2006 666,190) held by an Employee Share Ownership Trust and Nil shares (2006 396) shares held by the QUEST have been waived

EMPLOYEES 3

The total remuneration and associated costs during the year were

	2007 £'000	2006 £'000
Wages and salaries	1,421	1,746
Social security costs	163	201
Other pension costs	118	155
	1,702	2,102

Detailed disclosures of directors' remuneration and share options are given on pages 21 and 22 in the Group accounts

The average number of employees (including executive directors) during the year was 22 (2006 19), all of whom are classified as administrative staff

TANGIBLE FIXED ASSETS 4

	Freeholds £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 October 2006	10,138	3,209	13,347
Transfers to group companies	–	(36)	(36)
Additions at cost	–	95	95
Disposals	–	(29)	(29)
At 30 September 2007	**10,138**	**3,239**	**13,377**
Accumulated depreciation			
At 1 October 2006	7,292	778	8,070
Transfers to group companies	–	(32)	(32)
Charge for the year	65	285	350
On disposals	–	(28)	(28)
At 30 September 2007	**7,357**	**1,003**	**8,360**
Net book amount at 30 September 2007	**2,781**	**2,236**	**5,017**
Net book amount at 30 September 2006	2,846	2,431	5,277

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5 FIXED ASSET INVESTMENT

	Investment in subsidiaries £'000
Net book value	
At 30 September 2006 and 30 September 2007	**72,885**

The investments consist of a 100% interest in the following subsidiaries

	Principal activity	Country in which incorporated
Avon Polymer Products Limited	The manufacture and distribution of rubber and polymer based products	UK
Avon Rubber Overseas Limited	Investment Company	UK
Avon Rubber Pension Trust Limited	Pension Fund Trustee	UK

The directors believe that the carrying value of the investments is supported by their underlying net assets or value in use
Details of investments held by these subsidiaries are given in note 26 to the Group accounts on page 54

6 OTHER FINANCIAL COMMITMENTS

	2007 £'000	2006 £'000
Capital expenditure committed	–	6

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 Company for non-cancellable operating leases are

	2007 Land and buildings £'000	2007 Other assets £'000	2006 Land and buildings £'000	2006 Other assets £'000
For leases expiring				
Within 1 year	–	1	–	5
In 2-5 years	51	–	51	–
Over 5 years	965	–	905	–
	1,016	1	956	5

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

7 DEBTORS

	2007 £'000	2006 £'000
Amounts falling due within one year		
Trade debtors	25	23
Amounts owed from Group undertakings	44,908	39,943
Other debtors	295	1,331
Prepayments	323	315
	45,551	41,612
Amounts falling due after more than one year		
Other debtors	956	956
	46,507	42,568

Amount falling due after more than one year is in respect of a rent deposit relating to the companies premises in Melksham, Wiltshire

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CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR 8

	2007 £'000	2006 £'000
Bank loans	5,399	8,000
Bank overdrafts	4,811	-
Trade creditors	617	1,090
Amounts due to Group undertakings	8,374	5,403
Corporation tax	2,778	2,778
Other taxation and social security	51	104
Other creditors	93	2,133
Accruals	107	359
	22,230	19,867

BORROWINGS 9

	2007 £'000	2006 £'000
Current		
Bank loans	5,399	8,000
Bank overdrafts	4,811	-
Total borrowings	10,210	8,000

The maturity profile of the company's borrowings at the year end was as follows

In 1 year or less, or on demand	10,210	8,000
Between 1 and 2 years	-	-
Between 2 and 5 years	-	-
	10,210	8,000

The carrying amounts of the Group's borrowings are denominated in the following currencies

	2007 £'000	2006 £'000
Sterling	4,811	8,000
US dollars	5,399	-
	10,210	8,000

PROVISIONS FOR LIABILITIES 10

	Restructuring provision £'000
Balance at 30 September 2006	453
Utilised in year	(217)
Balance at 30 September 2007	236

The restructuring provision is expected to be fully utilised during the next year

Company Number 32965

Notes to the Parent Company Financial Statements continued
for the year ended 30 September 2007

11 SHARE CAPITAL

	2007 £'000	2006 £'000
Authorised		
37,900,000 ordinary shares of £1 each	**37,900**	37,900
Allotted and fully paid		
29,125,000 (2006 28,275,000) ordinary shares of £1 each	**29,125**	28,275

During the year 849,520 ordinary shares were issued for the consideration of £1,366,253

12 SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total £'000
At 30 September 2006	34,191	500	43,060	77,751
Current year loss	–	–	(5,427)	(5,427)
Movement in respect of employee share schemes	–	–	138	138
Proceeds from shares issued pursuant to Share Option Schemes	516	–	–	516
At 30 September 2007	**34,707**	**500**	**37,771**	**72,978**

13 TOTAL SHAREHOLDERS' FUNDS

	2007 £'000	2006 £'000
At the beginning of the year	**106,026**	112,329
Loss for the financial year attributable to equity shareholders	**(3,074)**	(4,569)
Dividends	**(2,353)**	(2,332)
New share capital subscribed	**1,366**	275
Movement in respect of employee share scheme	**138**	323
At the end of the year	**102,103**	106,026

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Five Year Record

	IFRS 2007 £'000	IFRS 2006 £'000	IFRS 2005 £'000	UKGAAP 2004 (restated) £'000	UKGAAP 2003 £'000
Revenue	**66,715**	63,112	46,860	239,212	248,507
Operating profit/(loss) before exceptional items	**1,238**	(79)	(1,909)	10,116	10,360
Exceptional operating items	**–**	2,545	(1,289)	–	–
Operating profit/(loss) from continuing operations	**1,238**	2,466	(3,198)	10,116	10,360
Net interest and other finance income/charges	**1,688**	(1,219)	(1,467)	(1,431)	(2,925)
Profit/(loss) before taxation	**2,926**	1,247	(4,665)	8,685	7,435
Taxation	**(717)**	(2,045)	(1,116)	(1,658)	(1,976)
Profit/(loss) for the year from continuing operations	**2,209**	(798)	(5,781)	7,027	5,459
(Loss)/profit for the year from discontinued operations	**(1,114)**	(18,329)	735	–	–
Profit/(loss) for the year	**1,095**	(19,127)	(5,046)	7,027	5,459
Profit/(loss) attributable to minority interest	**1**	(209)	115	389	108
Profit/(loss) attributable to equity shareholders	**1,094**	(18,918)	(5,161)	6,638	5,351
Ordinary dividends	**(2,353)**	(2,331)	(2,294)	(2,245)	(2,131)
Retained (loss)/profit	**(1,259)**	(21,249)	(7,455)	4,393	3,220
Intangible assets and property, plant and equipment	**37,346**	37,918	101,736	99,993	106,594
Net assets classified as held for sale	**466**	–	–	–	–
Working capital	**3,467**	5,283	26,373	18,043	15,245
Provisions	**(2,037)**	(3,426)	(5,615)	(4,294)	(1,957)
Pension asset/(liability)	**14,650**	(14,598)	(23,076)	(19,654)	(19,930)
Net borrowings	**(10,436)**	(1,107)	(51,719)	(29,687)	(38,022)
Net assets employed	**43,456**	24,070	47,699	64,401	61,930
Financed by					
Ordinary share capital	**29,125**	28,275	28,121	27,824	27,824
Reserves attributable to Avon shareholders	**13,774**	(4,761)	18,813	35,927	32,586
Minority shareholders' interests	**557**	556	765	650	1,520
Total equity	**43,456**	24,070	47,699	64,401	61,930
Basic earnings/(loss) per share	**3 9p**	(68 9)p	(19 1)p	25 1p	20 0p
Dividends per share	**8 5p**	8 5p	8 5p	8 5p	8 0p

Company Number 32965

Notice of Annual General Meeting
for the year ended 30 September 2007

Notice is hereby given that the annual general meeting of shareholders will be held at Melksham House, Market Place, Melksham, Wiltshire on 23 January 2008 at 10 30 a m for the following purposes -

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

2 To receive and consider the report of the Directors and the financial statements for the year ended 30 September 2007 (Resolution No 1)

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

4 To approve the remuneration report of the Directors (as set out on pages 14 to 19 of the annual report) for the year ended 30 September 2007 (Resolution No 3)

5 To re-elect Directors -

Sir Richard Needham retires under the provisions of Article 84 and, being eligible, offers himself for re-election (Resolution No 4)

Mr D R Evans retires under the provisions of Article 84 and, being eligible, offers himself for re-election (Resolution No 5)

Mr PC Slabbert retires by rotation and, being eligible, offers himself for re-election (Resolution No 6)

6 To approve the re-appointment of PricewaterhouseCoopers LLP as auditors of the Company, 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 (Resolution No 7)

7 To transact any other routine business

8 As special business to consider and if thought fit pass the following resolutions which will be proposed as an Ordinary Resolution (Resolution No 8)

"That the authority conferred on the directors by Article 9 2 of the Company's Articles of Association be renewed for the period ending on the date of the annual general meeting in 2009 or on 24 April 2009, whichever is the earlier, and, for such period the section 80 amount shall be £9,713,559"

9 As special business to consider and if thought fit pass the following resolution which will be proposed as a Special Resolution (Resolution No 9)

"That the power conferred on the directors by Article 9 3 of the Company's Articles of Association be renewed for the period ending on the date of the annual general meeting in 2009 or on 24 April 2009, whichever is the earlier, and for such period the section 89 amount shall be £1,457,034"

10 As special business to consider and if thought fit pass the following resolution which will be proposed as a Special Resolution (Resolution No 10)

"That the Company be and is hereby unconditionally and generally authorised for the purpose of section 166 of the Company's Act 1985 to make market purchases (as defined in section 163 of the Act) of ordinary shares of £1 each in the capital of the Company provided that

(a) the maximum number of shares which may be purchased is 4,371,100,
(b) the minimum price which may be paid for each share is 1p,
(c) the maximum price which may be paid for a share is an amount equal to 105% (one hundred and five percent) of the average of the middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange London official list for the 5 (five) business days immediately preceding the day on which such share is contracted to be purchased, and
(d) this authority shall expire at the conclusion of the annual general meeting of the Company held in 2009 or, if earlier, on 24 July 2009 (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry) unless such authority is renewed prior to such time"

11 As special business to consider and if thought fit pass the following resolution which will be proposed as an Ordinary Resolution (Resolution No 11)

"That in accordance with Schedules 4 and 5 of the Companies Act 2006 (the 2006 Act),

(a) The Company may send or supply any document or information that is,
   (i) required or authorised to be sent or supplied by the Company under the Companies Acts (as defined in section 2 or the 2006 Act), or
   (ii) pursuant to the Company's Articles of Association, or
   (iii) pursuant to any other rules or regulations to which the Company may be subject, by making it available on a website and/or email,

(b) The relevant provisions of the 2006 Act, which apply when documents sent under the Companies Acts are made available on a website, shall also apply, with any necessary changes, when any document or information is sent to or supplied under the Company's Articles of Association or other rules or regulations to which the Company may be subject, and

(c) This Resolution 11 shall supersede any provision of the Company's Articles of Association to the extent that it is inconsistent with this resolution"

By order of the Board
M Ingrey-Counter, Company Secretary
Melksham, Wiltshire
18 December 2007

Company Number 32965

A form of proxy is enclosed The appointment of a proxy will not prevent a 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, Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA, 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), for the taking of the poll at which it is to be used

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the annual general meeting to be held on 23rd January 2008 and any adjournment(s) thereof by utilising the procedures described in the CREST Manual CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual The message must be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001

Documents for inspection

The following documents will be available for inspection from the date of this notice of annual general meeting until the close of the annual general meeting, at the registered office of the Company and at the place of the annual general meeting from at least 15 minutes prior to the meeting until the close of the meeting

(i) the Register of Directors' Interest 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 the Directors of the Company are employed by the Company or any of its subsidiaries

Explanation of Resolution Nos 8 and 9

Article 9 of the Articles of Association of the Company both authorises your board to allot shares and disapplies shareholders' pre-emption rights, on an annual renewable basis Shareholders may recall that this authority has previously been given for the maximum amounts permitted by the Investment Committees of the Association of British Insurers and the National Association of Pension Funds ("the Investment Committees")

The authorities referred to above were renewed at the annual general meeting in 2007 and will, unless again renewed by the shareholders, expire at the end of the forthcoming annual general meeting The authorisation for the allotment of shares and for the disapplication of pre-emption rights can be renewed by way of a relatively simple ordinary resolution and special resolution respectively It is therefore proposed as Resolution No 8 to renew the authority of the Directors to allot shares up to an aggregate nominal amount of £9,713,559 ("the section 80 amount"), being an amount equal to one third of the existing issued ordinary share capital, so that the Directors are empowered pursuant to and within that authority to issue shares (including in connection with a rights issue) It is additionally proposed as Resolution No 9 to provide that the authority to issue shares for cash to persons other than existing shareholders (and not by way of a rights issue) will be limited to issues representing no more than £1,457,034 ("the section 89 amount") being 5% of the issued ordinary share capital as at the date of the notice of meeting

The proposed new section 80 amount and the proposed new section 89 amount have been adjusted to reflect the increase in the issued share capital which has taken place during the year as a result of employees and directors exercising their rights under the Avon Rubber p l c Sharesave Option Scheme 2002 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 one third of the existing issued ordinary share capital, this year one third of the existing issued ordinary share capital is the lesser amount and the section 80 amount has been calculated accordingly

The authorities sought in Resolution Nos 8 and 9 comply with the guidelines of the Investment Committees and will, unless subsequently renewed by shareholders, expire at the end of the annual general meeting to be held in 2009 or on 24 April 2009 if earlier

No issue of shares (apart from issues in respect of the exercise of options granted or to be granted to employees or Directors under option schemes approved by shareholders, including the Avon Rubber p l c Sharesave Option Scheme 1992, the Avon Rubber p l c Executive Share Option Scheme 1986, The Avon Rubber Sharesave Option Scheme 2002 and the Avon Rubber p l c Performance Share Plan 2002), 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

Company Number 32965

Explanation of Resolution No 10

It is proposed, by way of Resolution No 10, to renew the Company's power to buy back its own shares Although the Company's Articles of Association give the Company the relevant power, the Company is only permitted to buy back its shares pursuant to that power if it is additionally authorised to do so by a relevant resolution of the Company

Resolution No 10 would grant the Company authority to make purchases on the London Stock Exchange of up to 4,371,100 ordinary shares of £1 each of the Company, subject to the limitations on the minimum and maximum prices set out in the Resolution, for a period up to the conclusion of the annual general meeting of the Company held in 2009 or, if earlier, 24 July 2009 The maximum number of ordinary shares for which authority to purchase is being sought represents nearly 15% (fifteen percent) of the Company's issued ordinary share capital

As of 5 December 2007 there were options to subscribe outstanding over 710,800 ordinary shares, representing 2 4% of the Company's ordinary issued share capital If the authority given by Resolution No 10 were to be fully exercised, these options would represent 2 9% of the Company's ordinary issued share capital As of 5 December 2007 there were no warrants outstanding over ordinary shares

The Directors intend to exercise the power given by Resolution No 10 only when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase the underlying value per share having regard to the intent of the guidelines of institutional investors and that such purchases are in the best interests of shareholders generally Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account before deciding upon this course of action Any shares purchased in this way will be cancelled and the number of shares in issue will be reduced accordingly

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

In the opinion of the Directors, Resolution No 10 is in the best interests of the shareholders as a whole and the Directors intend to seek renewal of these powers at subsequent annual general meetings

Explanation of Resolution No 11

The Directors recommend Resolution 11, which is largely prompted by a number of changes in company law brought about by the Companies Act 2006, which is being brought into force in stages Parliament believes that companies generally should move from paper to electronic communication with their shareholders and the Directors are pleased that the Company has a growing number of shareholders who make active use of the Company's website, and intend to move to increased use of the website as a channel of communication with shareholders, in line with Parliament's intentions

For shareholders generally, it is hoped that this move will lead to an improvement in the level and quality of communication, and for the Company there will, obviously, be significant savings in the administrative and postage costs of distributing paper copies of documents and information that the Company is authorised or required by law to send to its shareholders Such information shall include (inter alia) the dispatch of notices of meetings, circulars, reports, annual and half yearly accounts and summary financial statements and appointment of proxies Equally importantly, there will be benefits for the environment

The Board believes that it is important for the Company to be abreast of these developments and for its Articles of Association to be kept up-to-date Accordingly, the Company now seeks shareholders' consent to send or supply to them in electronic form such documents and information that the Company is authorised or required by law to send to its shareholders

Please be assured that, if a shareholder wishes to continue to receive notices of meetings, annual accounts and other documents from the Company in hard copy form, by post, you are able to choose to do so Shareholders who express a preference for electronic communication, however, or who do not express a preference for hard copies, will be able to access all documents distributed by the Company on the Company's website Shareholders who have not opted for hard copies will be sent a brief letter or email whenever important documents are published on the website, giving full details of the website address, where to find the relevant documents on our website, and how to access them

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