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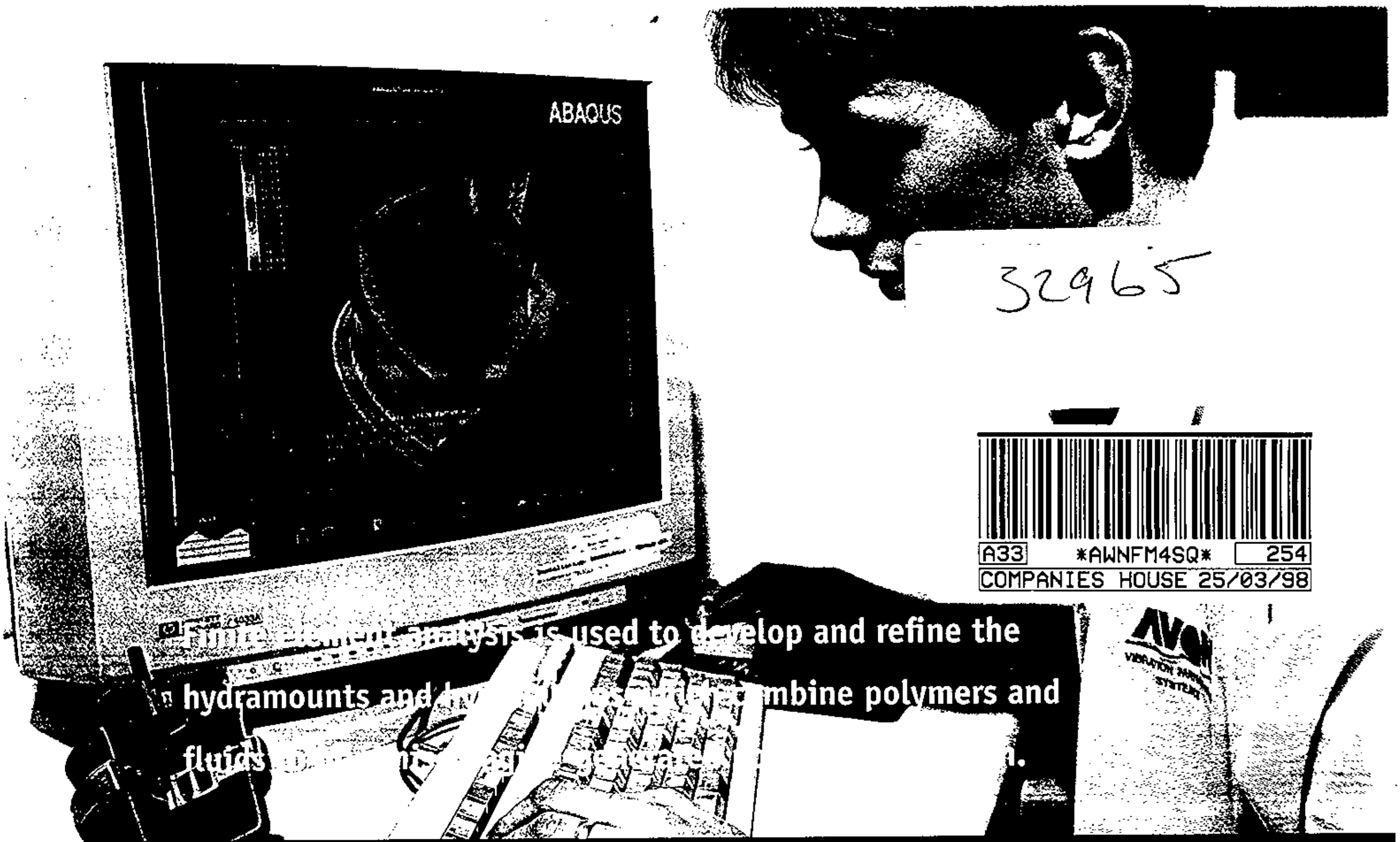
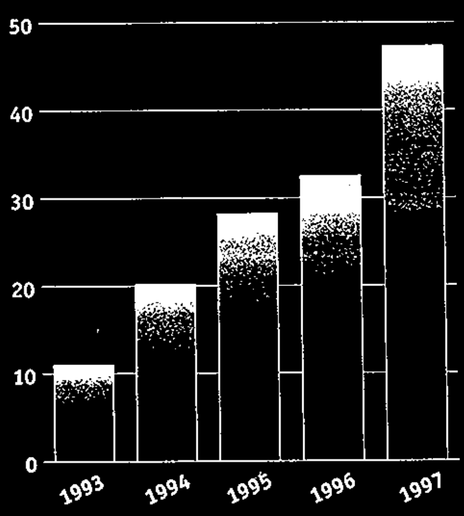


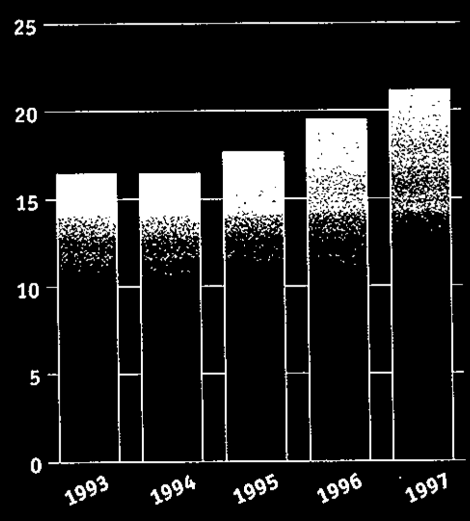
FINANCIAL HIGHLIGHTS Continuing Activities

	1997 £'000	1996 £'000
Turnover	**251,948**	250,117
Operating Profit before exceptional items	**19,393**	16,887
Profit before taxation and exceptional items	**19,319**	14,298
Earnings per share before exceptional items	**47.3p**	32.6p
Dividend per share	**21.15p**	19.5p

Earnings per share (p)



Dividend per share (p)



Chairman's Statement

1997 was the year in which Avon successfully concentrated its focus on those areas of polymer engineering with the greatest potential.

Introduction

This is my first annual report to shareholders since I became Chairman on 22 January 1997 following the retirement of Lord Farnham who made a huge contribution to the Group, as a member of the board for 32 years and Chairman for 18 years.

I am delighted to report that 1997 has been a successful year, not only in terms of the trading results of the continuing businesses, but also in establishing a strong financial position as a consequence of the Tyres disposal in March. The Group is now in an excellent position to achieve its strategic plans for earnings growth.

Results

On a continuing business basis, Group sales in 1997 amounted to £251.9 million (1996: £250.1 million) and profit before taxation, before including exceptional items, was £19.3 million (1996: £14.3 million). Changes in exchange rates during the year reduced sales and profits, in comparison with the 1996 results, by £13.7 million and £1.1 million respectively. Earnings per share on continuing business, before exceptionals, improved by 45.1% to 47.3p (1996: 32.6 p).

Positive cash flow in 1997 from the continuing businesses and the proceeds from the sale of the Tyres division means that the Group has ended the year with net cash of £32.5 million compared with net debt of £32.1 million a year ago.

Dividend

Shareholders are recommended to approve a final dividend of 15.0p per share which will be paid as a foreign income dividend on 30 January 1998 to ordinary shareholders on the register on 19 December 1997. When added to the interim dividend of 6.15p per share, the final will provide a total dividend for the year of 21.15p per share, an increase of 8.46% on the 1996 dividend of 19.5p.

Since it is not possible under current tax legislation and practice to combine the payment of a foreign income dividend with a scrip dividend, the company will not be offering a scrip dividend alternative in respect of this final dividend.

An explanation of the reasons for paying a foreign income dividend and its effects on shareholders is given on page 52.

Directors

Don Samardich is to retire as an executive director of the board on 31 December 1997. He was appointed to the board in January 1994, having joined the Group in 1990. As President of Cadillac Rubber & Plastics Inc, he has played a fundamental role in the growth and direction of the Group for over seven years. He leaves Avon with our very best wishes for his retirement.

Roger Hunt was appointed to the board on 1 September 1997. He joined the company in May 1994 as director of corporate planning and, having re-located to USA, has responsibility for the whole of our Technical Products operations and for Avon's corporate activities in North America.

John Cutts joined the board on 1 June 1997 as a non executive director. As a managing director of West Merchant Bank he is responsible for their corporate finance activities in Western Europe.

We welcome John and look forward to his contribution to our board.

We expect the future expansion of the Group to be achieved by a combination of acquisitions and organic growth.

Two thirds of our employees are based outside the UK. Major manufacturing bases in the US, Europe and Latin America will soon be augmented by production facilities in India.

Strategy for Development

It is the strategy of the board to develop the expertise and experience of polymer engineering for which the Avon Rubber Group is well known. The sale of Avon Tyres has released resources which are being applied to the further development of our automotive and technical product activities. The board has given approval in principle to the building of an advanced mixing and material research facility based in the UK which is expected to take two and a half years to complete and cost up to £13.5 million.

Also under detailed review is a scheme to relocate the UK Technical Products production facilities from the Melksham site. Several alternatives are being examined to provide the most up to date production facilities in support of our customers and markets.

We expect the future expansion of the Group to be achieved by a combination of acquisitions and organic growth.

Overview of our Markets

Although demand for automotive components in Europe has been relatively flat, there has been moderate growth in the US, particularly in the light truck market where our position is strong. Overall, we have managed to increase our market share in Europe and have achieved strong growth in the US.

Technical Products division serves a wide range of industrial markets in Europe and North America. In Europe, demand for dairy liners, crawler tracks and business machines has been steady. Other general industrial demand in Europe has been weak. In North America, market demand has been steady or improving across our product range. In total, defence contracts were much lower than the prior year as additional sales at CQC could not offset lower volume in other areas.

Corporate Governance

We are in compliance with the amendments to the Stock Exchange Listing Rules. Shareholders will find the Remuneration Committee Report on pages 19 to 21.

Employees

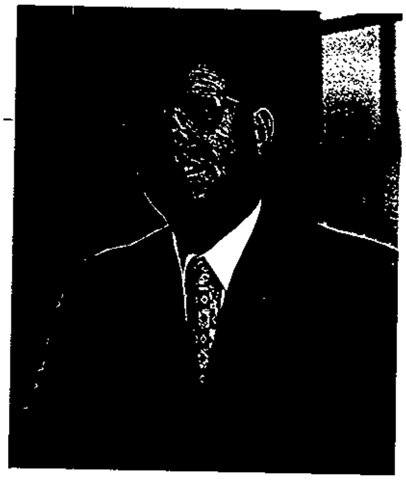
Our skilled workforce is a key factor in achieving our strategic goals in each of our international markets. I extend my thanks to all our employees for their commitment and achievement during the year.

Outlook

Additional capacity provided by recent investments will enable the Automotive Components division to meet increased demand for its products and deliver further growth. New products combined with improved market shares are expected to provide the basis for growth in the Technical Products division for which new plant has been installed in North America and is planned in Europe.

Notwithstanding the current strength of sterling, the board is confident of further progress.

Christopher King
Chairman



Chief Executive's Review

We believe that Avon's distinctive capability is to apply our specialist materials expertise to design products which meet or exceed customer requirements in all respects.

The growing international presence which we have established over recent years played an important part in the successful progress during 1997.

Established operations in France, USA and Mexico delivered substantial improvements in margins and operating profit from moderate sales growth, while investment continued to extend further the reach and capacity of Avon's business.

We believe that Avon's distinctive capability is to apply our specialist materials expertise to design products which meet or exceed customer requirements in all respects. New challenges have led us to expand the portfolio of materials we use and we routinely combine plastics, metals and fibres with natural and synthetic rubbers. This use of composite materials has provided opportunities to undertake a greater range of value-adding activities on behalf of customers.

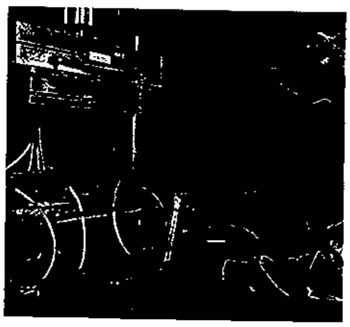
In addition to our in-house activities we work in partnership with the foremost academic institutions to undertake research and development projects. In the year under review a number of universities have carried out work on our behalf.

We identify rubber compounding and mixing as core skills. Mixing facilities at Cadillac and in France have been extended and upgraded during the year and the board has approved in principle investment to provide a rubber mixing and R&D facility in the UK in anticipation of the expiry of the materials supply agreement with Cooper-Avon Tyres during the year 2000. In parallel, the Technical Products team is working to design new facilities which will incorporate best practice features to ensure sustainable competitive advantage and enhanced earnings.

Coolant hoses destined for customers in the Iberian Peninsula are produced by Avon Polimeros in Tondela, Portugal.

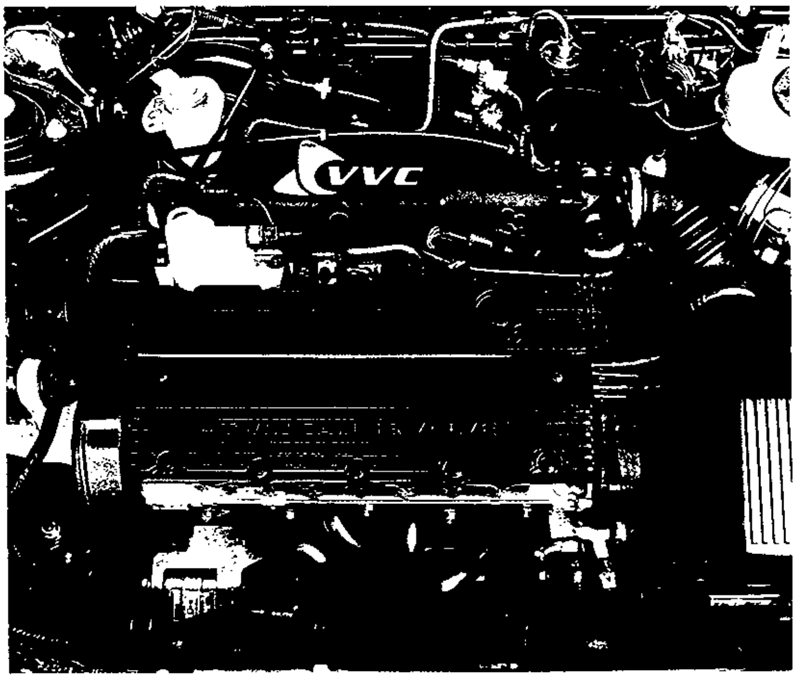
Pacer produces a wide range of components for use in the pharmaceutical and cosmetic markets in North America.

The Avon Group supplies specialist components to major manufacturers and distributors of photocopiers, fax machines and printers.



At Manton in Michigan, [illegible] in increased capacity is being [illegible] to good use for the manufacture of vehicle air ducts.

We are called in at the design stage to develop hose systems for many of the world's leading vehicle manufacturers.



Chief Executive's Review continued

The growing international presence which we have established over recent years played an important part in the successful progress during 1997.

Avon Automotive

A good level of vehicle sales in North America enabled the Avon automotive team in Michigan and Juarez, Mexico to run at high efficiency while delivering substantial growth and laying a foundation for further improvement.

During the year particular emphasis was placed on the development of automotive hose activities. The success of CADbar in helping car manufacturers reduce fuel emissions has led to the development of several variants and the installation of a fourth production line at Cadillac ahead of schedule. The new coolant and radiator hose plant at Tondela in Portugal reached its planned production level and a further hose production line was installed at Rudnik in the Czech Republic. Orders for Brazil were sourced from Europe until a licensing agreement enabled supply of locally manufactured products to our specification. Further capacity is being installed to meet local requirements in India and Mexico.

Vibration Management activities showed improved sales and margins. Order books underpin activity levels for the next two years and investment in design and development capabilities is planned to ensure further success in capturing market share.

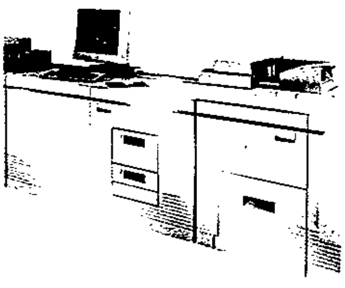
Avon Technical Products

The completion of several defence-related projects during the year led to the expected reduction in sales and profit from UK operations. In France, however, higher sales of crawler tracks and production for a naval programme helped to achieve good progress and CQC in Barnstaple, UK, showed improved performance.

In North America, Cadillac Technical Products operations produced improved sales and profits on dairy liners and energy products and Pacer recorded another satisfactory year supplying plastics tooling and components. Delays in defence contracts meant that Bell Avon's performance did not improve.

On 1 December 1997 the acquisition of Zatec was completed at a total cost of £7.7 million. In the year to 31 December 1996, Zatec's operating profit was £0.8 million. Zatec, which is based near Boston, Massachusetts in the United States, manufactures and sells components, such as cleaning blades for the business machine industry in North America, which complement those produced by the Technical Products division in Europe.

Steve Willcox
Chief Executive



The Xerox 5090 high speed copier utilises our advanced elastomeric-coated rollers in its fusing system.

This four-wheel drive vehicle being refuelled at a filling station in the USA is fitted with CADbar to prevent the emission of fuel vapour into the atmosphere.

Avon aerosol gaskets and cupseals are used throughout the world in every type of household spray container.

Avon stators are vital components in downhole drilling motors used in gas and oil exploration.

Innovative materials and processes are employed in the manufacture of rollers used in modern business communications.

Automotive Components' Review

Our strength is our ability to use our R&D to differentiate our products and increase our margins by developing value added advantages.

Our Automotive Components division has shown sustained progress throughout the year with increases in both volumes and margins.

During the year our global manufacturing base has been considerably expanded.

At our new Indian joint venture, Gold Seal-Avon, the provision of an advanced production facility is well under way. This business will provide automotive hoses for Ford, Peugeot, Maruti and other local producers.

We have increased our presence in Latin America by signing a technology transfer agreement that allows our coolant hoses to be produced in Brazil for Ford, Fiat, Volkswagen and General Motors.

A new hose plant is being installed at our plant in Orizaba, Mexico. It will be fully operational towards the end of next year making hoses for the new Mexican-built VW Beetle replacement.

Vibration Management Systems at Chippenham have combined technological superiority with an ability to anticipate customer needs and have increased their sales in line with plans.

We have strengthened our links with US-based Acadia Polymers to produce precision gearbox seals in Europe.

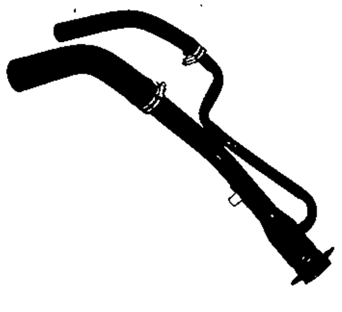
In April we acquired the outstanding 35% shareholding in Avon Automotive at Rudnik in the Czech Republic, which has already enhanced earnings.

Our new Portuguese hose production facility supplied customers in Spain and Brazil during the year and full production at our Trowbridge plant means that we are now investing in additional capacity.

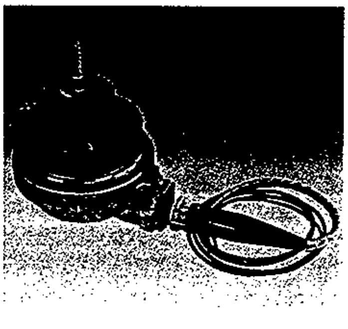
Capital expenditure will continue to be concentrated on increasing the global reach of our business, extending the production of existing products into new areas and adding new products to our range.

We are confident that increased capacity combined with new product innovation will continue to provide opportunities for growth and improvement.

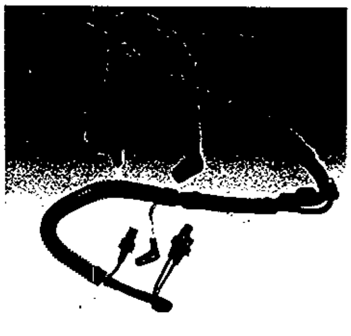
The CADbar impermeable fuel hose helps customers meet environmental requirements by reducing the amount of fuel which escapes into the atmosphere.

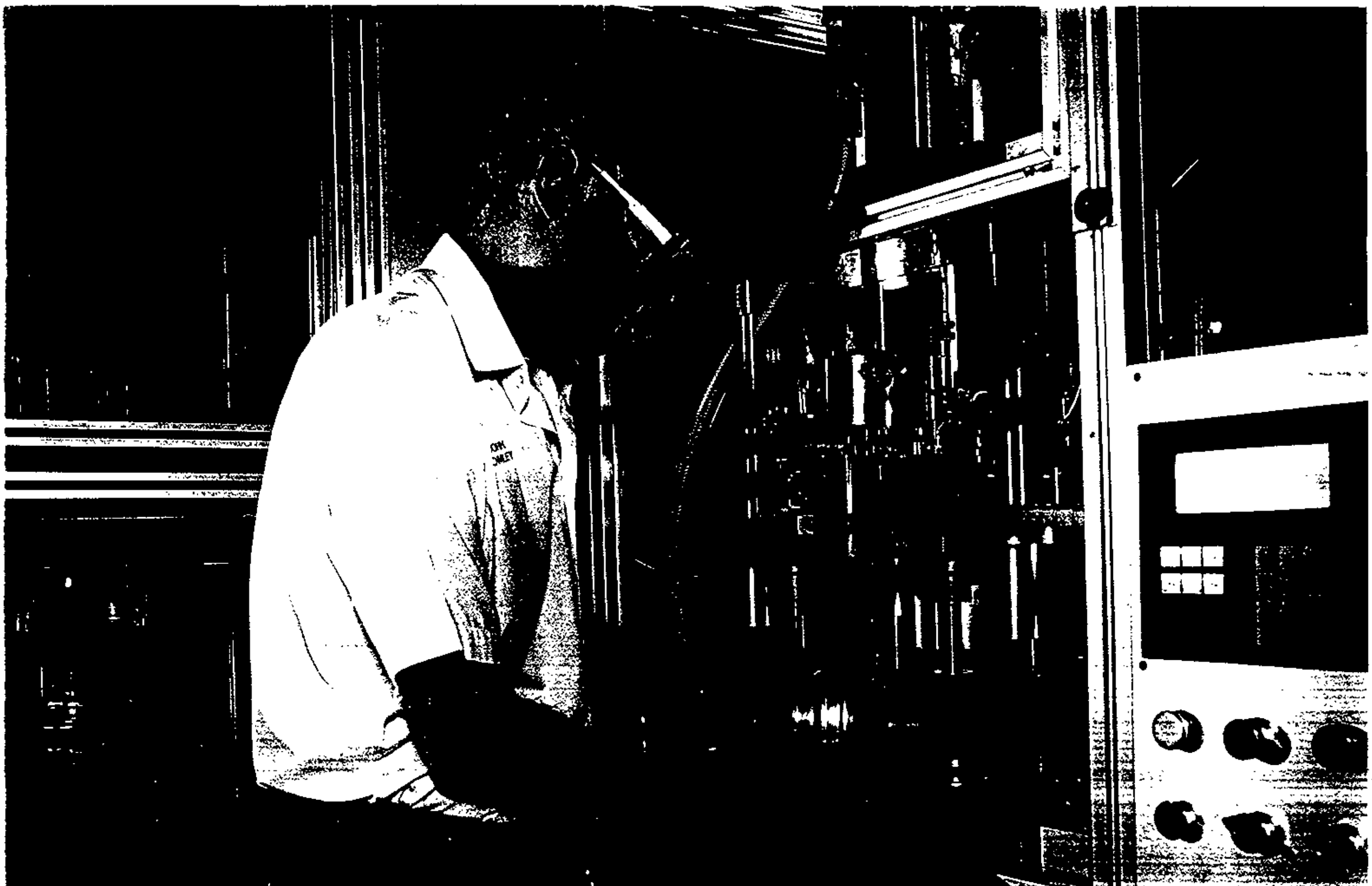


A switchable semi-active hydramount links with the vehicle's engine management computer to isolate vibration during different stages of the vehicle's operating cycle.



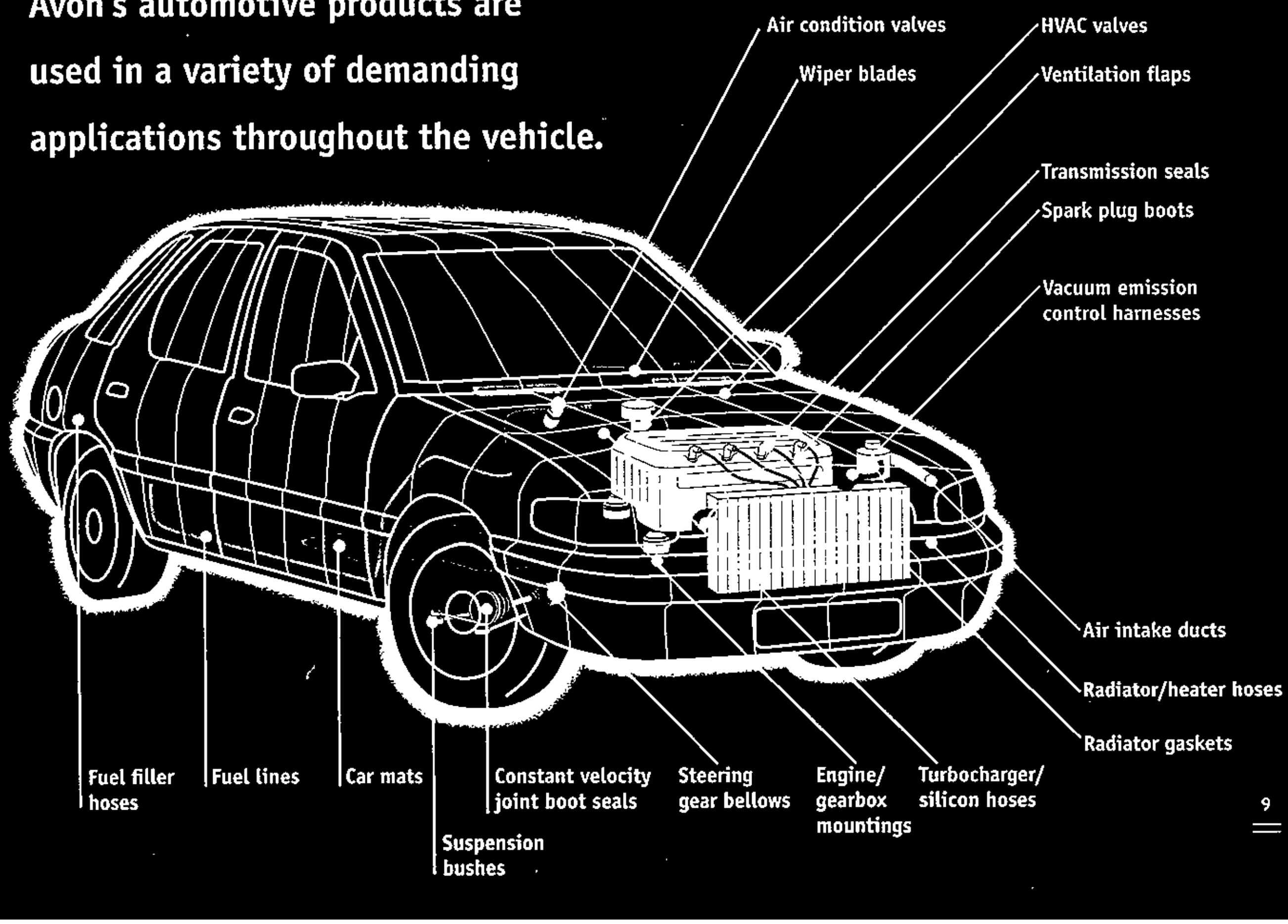
Emission components and vacuum control assemblies produced in our Juarez facility in Mexico incorporate rubber and plastic components to help reduce exhaust emissions.





Increasing requirements for passenger comfort are met by the use of our innovative anti-vibration components.

Avon's automotive products are used in a variety of demanding applications throughout the vehicle.



Technical Products' Review

Our strategy is to concentrate on precision products and innovative materials in niche markets.

Our Technical Products division was able to achieve improved profits on lower sales with a resultant lift in operating margins.

As anticipated, there was a downturn in European business for our UK Technical Products companies in 1997, chiefly because of the reduction in military respirator sales and weak demand in certain industrial markets. An exception was CQC, who are benefiting from a major contract to supply the Danish Armed Forces with a range of personal load carrying equipment.

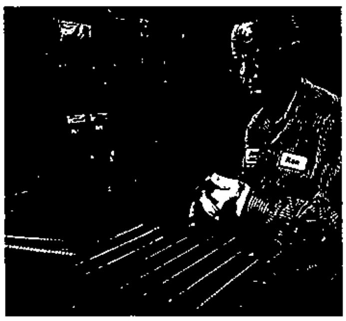
There has been an improvement in demand for milk liners and we have anticipated market opportunities by developing equipment to launch a new improved range of products.

Sales of both aerosol and business machine products showed improvement during the second half of the year giving cause for optimism for the coming year. For both of these products our ongoing programmes for improved production have resulted in efficiency gains.

In North America, Cadillac Technical Products improved market penetration of its major products, especially in the supply of stator parts for oilfield and environmental drilling applications. We are investing in new processes and equipment in Michigan to consolidate production more effectively and to obtain gains from more efficient handling of waste materials.

Golf grip sales were boosted by the introduction of new materials and designs which have been well received by customers.

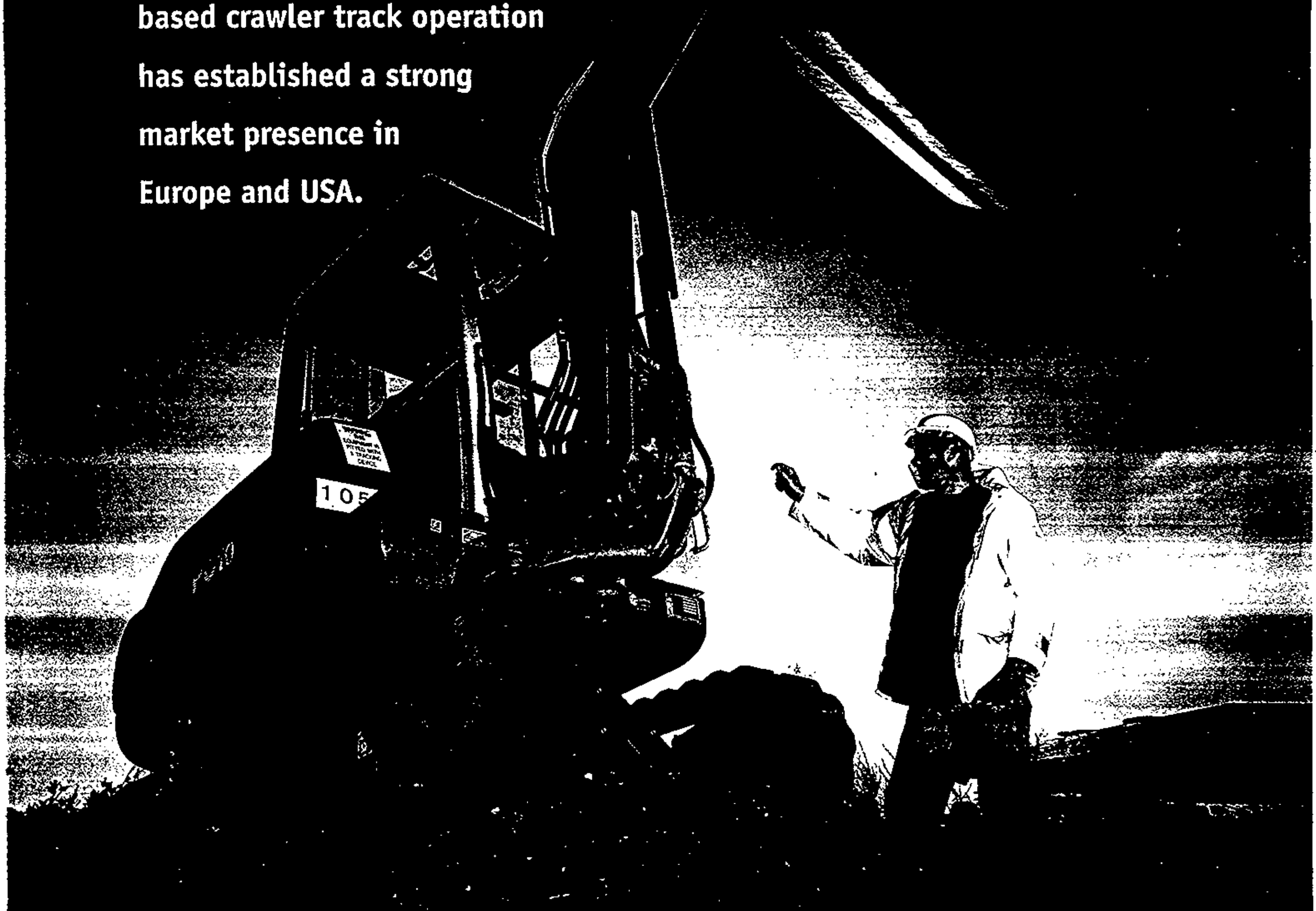
Avon golf grips, produced in the UK and USA, are used by discerning professional and amateur players throughout the world.



Armed forces demand the highest performance and CQC is able to meet these requirements with a range of personal equipment supplied to world-wide customers.

The efficiency of modern automated milking parlours is enhanced by the use of Avon liners and tubing.

By expanding its product base and entering a strategic alliance with Fukuyama Rubber, our French-based crawler track operation has established a strong market presence in Europe and USA.



Milk liners are manufactured on the latest automatic presses in the UK and USA.

Financial Review

for the year ended 27 September 1997

The 1997 accounts of the Group have been prepared in accordance with applicable accounting standards including Financial Reporting Standard 1 (Revised) 'Cash Flow Statements' and Financial Reporting Standard 8 'Related Party Disclosures'.

The disposal of the Tyres division in March 1997 marked a major turning point in the financial position of the Group. The balance sheet has been strengthened considerably. The proceeds amounted to cash of £59.1 million and working capital debt of £8.4 million was assumed by the purchaser. There was an exceptional gain on the transaction of £12.3 million, costs of £1.3 million and a provision of £4.0 million was made for estimated costs of relocating the business presently based on the Melksham site. The investment programme in 1997, which amounted to £9.0 million by the continuing businesses, included £1.3 million for the outstanding 35% shareholding in Avon Automotive at Rudnik in the Czech Republic, acquired in April 1997.

Exchange Rates

In common with other international companies, the Group reports the trading results of overseas companies based upon average rates of exchange versus sterling over the year. A comparison of the key rates of exchange that impacted upon Avon's overseas profit is as follows:

	1997 v£	1996 v£	% Change
US Dollar	**1.63**	1.54	+5.8
French Franc	**9.45**	7.77	+21.6
Czech Crown	**49.00**	42.00	+16.7

The gain in sterling, compared with other currencies, prevailed throughout most of the trading year and caused a reduction of £13.7 million in the sterling value of Group sales, year on year, and in operating profit of £1.1 million.

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

Turnover – Continuing Businesses

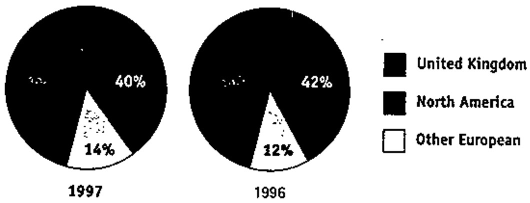
In the following summaries, 1996 figures have been restated at 1997 rates of exchange for comparative purposes. Group turnover in 1997 was £251.9 million and was 6% higher than the restated sales of 1996 of £237.7 million. By origin this change is as follows:

£million	1997	1996*	% Change
United Kingdom	**99.9**	98.9	+1.0
Other European	**34.1**	29.6	+15.2
North America	**117.9**	109.2	+8.0
Total	**251.9**	237.7	+6.0

* Restated at 1997 rates of exchange

Sales by overseas companies represented 60% of Group turnover in 1997 compared with 58% in 1996 in the continuing businesses. The increase resulted mainly from growth at Cadillac Automotive in Michigan, higher volumes in France and a full-year contribution from Avon Polimeros in Portugal.

Turnover by Origin



There was continued growth in general throughout the Automotive division and especially in North America.

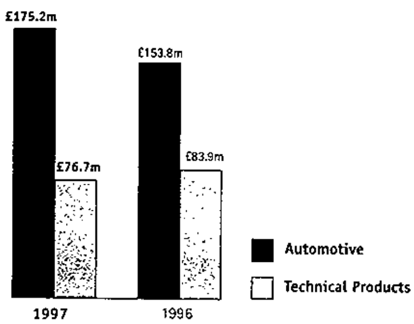
In the Technical Products division there were increased sales in the dairy sector, North American technical products and in France from the crawler track business. In the UK, demand for industrial product was disappointing and, as had been expected, respirator volume was lower than in 1996.

By business sector the change is analysed as follows:

£million	1997	1996*	% Change
Automotive	**175.2**	153.8	+13.9
Technical Products	**76.7**	83.9	-8.6
	251.9	237.7	+6.0

* Restated at 1997 rates of exchange

Turnover by business sector



Financial Review continued

for the year ended 27 September 1997

Operating Profit – Continuing Businesses

In the continuing businesses before exceptional items there was a gain of 20.5% in operating profit to £19.4 million in 1997 from £16.1 million in 1996 on a restated basis. In Automotive, there was an excellent performance from Cadillac and gains from the automotive part of Injected Rubber Products, as a result of restructuring activity last year. In Europe, Avon Polymères in France, VMS at Chippenham and Avon Automotive at Rudnik in the Czech Republic produced improved results. The European hose business at Trowbridge in the UK and at Tondela in Portugal experienced a significant increase in product demand and achieved a good return overall. Successful completion of defence related projects, combined with weak demand in certain industrial markets in Europe led to a reduction in sales and profits from UK operations.

The Technical Products division achieved improved profits from the dairy liner business both in the UK and US. CQC based in Barnstaple in the UK made a good contribution and Avon Spencer Moulton in France, gained from higher crawler track sales. In the United States there was a good performance throughout the division except at Bell Avon, where low volume reflected the continued delay in defence equipment orders.

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

£million	1997	1996*	% Change
United Kingdom	**5.3**	6.4	-17.2
Other European	**2.1**	1.5	+40.0
North America	**12.0**	8.2	+46.3
Total	**19.4**	16.1	+20.5

* Restated at 1997 rates of exchange

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

£million	1997	1996*	% Change
Automotive	**12.3**	9.6	+28.1
Technical Products	**7.1**	6.5	+9.2
Total	**19.4**	16.1	+20.5

* Restated at 1997 rates of exchange

Profit before Taxation

The Group profit before taxation on the continuing businesses before exceptional items has improved by 35% to £19.3 million (1996: £14.3 million) and represents a return on sales of 7.7% compared with 5.7% in 1996 on a published basis and 5.8% on a 1997 currency restated basis.

Taxation

The taxation charge of £6.4 million on continuing businesses represents an effective rate of 33% compared with 33% effective rate on a comparative restated basis in 1996.

Capital Expenditure – Continuing Businesses

Investment in new production lines, tooling and development equipment in 1997 amounted to £7.5 million (1996: £12.1 million) and represented 0.9 times the rate of depreciation (1996: 1.4 times). Depreciation in 1997 amounted to £8.6 million (1996: £8.8 million).

Capital expenditure was as follows:

£million	1997	1996
Automotive	**5.5**	8.9
Technical Products	**2.0**	3.2
Total	**7.5**	12.1

Cash Flow

Continued improvement in the utilisation of working capital in the Group is a feature of the management process. Debtor days and stockturn ratios are monitored closely on a monthly basis. The ratio of trading working capital as a percentage of turnover increased to 16.1% in 1997 compared with 14.9% in 1996 because of higher debtors at the end of the year.

The Group net cash position at the end of 1997 was £32.5 million compared with a net borrowing position of £32.1 million last year. The main features of the changes are as follows:

			£ Million
Net borrowings at the end of 1996			(32.1)
Sale of Tyres business	- cash	59.1	
	- debt transfer	8.4	
	- disposal costs	(1.3)	
			66.2
Cash flow	- Tyres business		(5.9)
Cash flow	- Continuing businesses		5.8
New investment	- 35%, Avon Automotive at Rudnik	(1.3)	
	- India JV Gold Seal-Avon	(0.2)	
			(1.5)
Net cash at the end of 1997			32.5

Return on Capital Employed

Return on Capital Employed on continuing businesses is 25.5% which compares with the 1996 return of 21.4%.

Board of Directors

Left to right:
Hamish McPhie, Finance Director; Don Samardich, Executive Director; Christopher King, Chairman; Trevor Bonner, Non-executive Director; John Cutts, Non-executive Director; Roger Hunt, Executive Director Avon Technical Products; Steve Willcox, Chief Executive and Steve Stone, Executive Director Avon Automotive.

The following were directors at 4 December 1997

Christopher King, C.B.E. Chairman

Aged 61. He has been a member of the board since January 1995 and was appointed Chairman in January this year. He spent 35 years with BP in Europe and the USA and was Chairman of BP Europe until retiring in 1994. He is a non-executive director of the BOC Group plc and other companies. He has an MBA from INSEAD and is a member of the INSEAD board. He was made a C.B.E. in the 1995 New Year's Honours list.

Steve Willcox, Chief Executive

Aged 51. He was appointed to the board in 1991 as the director responsible for Avon's polymer interests in Europe, becoming Chief Executive on 1 January 1995. He joined the company in 1968 as a graduate trainee.

Hamish McPhie, Finance Director

Aged 55. He was appointed to the board on 1 October 1995 having previously held a similar position with Molins plc. Having qualified as an accountant in Bristol, he spent many years in international manufacturing businesses including American Standard, Babcock International plc and BTR plc.

Board of Directors continued

Don Samardich, Executive Director

Aged 58. He was appointed to the board on 1 January 1994 and became President of Cadillac Rubber & Plastics Inc (now Avon North America Inc) in October of that year. Before joining the Group in 1990 he founded his own law firm and practised as an attorney in Michigan. Mr Samardich is retiring at the end of December 1997.

Steve Stone, Executive Director Avon Automotive

Aged 47. He was appointed to the board on 1 June 1995 having previously been managing director of Avon Automotive Components. A graduate chemist and Fellow of the Institute of Materials, he joined the company in 1966 as a technical trainee.

Roger Hunt, Executive Director Avon Technical Products

Aged 53. He was appointed to the board in September 1997, having joined the company in May 1994 as director of corporate planning. In 1996 he was made responsible for the European operations of the Technical Products Division. He has now assumed responsibility for the world-wide operations of Avon Technical Products and the corporate office of Avon North America Inc. and is based in Cadillac, Michigan.

Trevor Bonner, C.B.E. Non-executive Director

Aged 54. A chartered accountant, he was appointed to the board in September 1994. An executive director of GKN plc since 1985, he is also a vice-president of the Society of Motor Manufacturers and Traders. He was made a C.B.E. in the 1996 Birthday Honours list.

John Cutts, Non-executive Director

Aged 47. He was appointed to the board in June 1997. As a managing director of West Merchant Bank Limited, he is responsible for their corporate finance activities in Western Europe. He is non-executive Chairman of Berry Palmer and Lyle and the Friedland Group. He read engineering at the University of Sussex and has an MBA from INSEAD.

Committees of the Board

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

Directors' Report

for the year ended 27 September 1997

The directors submit the one hundred and seventh annual report and audited financial statements of the company for the year ended 27 September 1997.

1. Principal activities and Business review

The principal activities of the Group are:

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

The business review is covered on pages 1 to 13

2. Results and Dividend

The Group profit for the year before taxation and exceptional items amounts to £19,312,000 (1996 £21,509,000). The Group profit for the year after taxation and minority interests but before exceptional items amounts to £12,391,000 (1996 £13,613,000). An interim dividend of 6.15p per share (1996 5.75p) was paid on 25 July 1997. The directors recommend a final dividend, to be paid as a foreign income dividend of 15.0p per share (1996 13.75p) making a total of 21.15p per share for the year to 27 September 1997 (1996 19.5p). Full details are set out in the profit and loss account on page 23. The total distribution of dividends for the year to 27 September 1997 is £5,800,000 (1996 £5,273,000).

3. Directors

The names of the directors as at 4 December 1997 are set out on pages 14 and 15. None of the directors had a beneficial interest in any contract to which the parent company or any subsidiary was a party during the year. Beneficial interests of directors, their families and trusts in ordinary shares of the company can be found on page 21.

No movements occurred in directors' shareholdings between the end of the financial year and 4 December 1997. Mr. J.W. Cutts and Mr. R.A. Hunt retire as directors under Article 91 and, being eligible, offer themselves for re-election. Mr. T.C. Bonner retires in rotation as a director and, being eligible, offers himself for re-election. Lord Farnham and Mr. J.M. Pinckard retired as directors on 22 January 1997. Mr. D.C. Samardich will retire as a director on 31 December 1997.

4. Substantial shareholdings

At 3 December 1997, the following shareholders held 3% or more of the Company's issued ordinary share capital.

Schroder Investment Management	10.02%
Prudential Corporation Group of Companies	8.21%
Funds managed or advised by M&G Investment Management Limited	7.59%
Morgan Grenfell Asset Management Group of Companies	7.83%
Threadneedle Investment Management Limited on behalf of its clients	5.78%
Robert Fleming Holdings Limited and its Subsidiaries	5.69%
Discretionary clients of Edinburgh Fund Management	4.72%
Britannic Assurance Public Limited Company	4.37%

5. Political and charitable contributions

No political contributions were made during the year. Contributions for charitable purposes amounted to £100,000 (1996 £114,000).

6. Creditor payment policy

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

For the year ended 27 September 1997, the number of days' purchases outstanding at the end of the financial year were 51 days (1996 57 days), based on the ratio of trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Directors' Report continued

for the year ended 27 September 1997

7. Disabled persons

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

8. Employee involvement

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

9. Research and development

The Group's investment in research and development in the continuing businesses for the year to 27 September 1997 amounted to £4.5 million (1996: £4.5 million).

The Group will continue to develop its technological expertise to consolidate its position as a world class manufacturer.

In the coming year three new development centres will be established to support and promote innovative development in our world-wide operations. These centres of excellence will focus on materials, on automotive hose and on vibration management systems. This programme, coupled with the recent enhancements to mixing facilities in the United States, will underpin our continuing commitment to supply high performance automotive and technical polymer products.

10. Health, Safety and the Environment

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

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

11. Auditors

A resolution to re-appoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

By order of the board
C.L. Martin, Secretary
Bradford-on-Avon, Wiltshire
4 December 1997

Corporate Governance

Statement of compliance with the Code of Best Practice

After the retirements of Lord Farnham and J.M. Pinckard on 22 January 1997 there were two non-executive members of the board until the appointment of Mr. J.W. Cutts on 1 June 1997. Subject to that, the company complied throughout the year, and remains in compliance, with the Code of Best Practice incorporated in the report of the Cadbury Committee on the financial aspects of Corporate Governance.

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

Internal Controls

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

- Systems exist throughout the Group which provide for the creation of three year plans and annual budgets; monthly reports enable the board to compare performance against budget and to take action where appropriate.
- Procedures are in place to identify any major business risks and evaluate their potential financial effects.
- There is a clearly defined delegation of authority from the board to the operating companies, with appropriate reporting lines from business managers to individual executive directors.
- There are procedures for the authorisation of capital expenditure and investment, together with procedures for post-completion appraisal.
- Internal financial controls are in existence which provide reasonable assurance of the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.
- The board has issued a Policy and Code on Business Conduct which reinforces the importance of the internal financial controls.
- Although the board itself retains the ultimate power and authority in relation to decision making, the Audit Committee of the board of directors meets regularly with management and external auditors to review specific accounting, reporting and internal control matters. The Committee also reviews the interim, preliminary and annual results statements.

Both the board and the Committee have reviewed the effectiveness of the Group's internal financial controls.

Going Concern

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

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

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

Basis of opinion

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

Opinion

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

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

Coopers & Lybrand, Coopers & Lybrand
Chartered Accountants, Bristol,
4 December 1997

Report of the Remuneration Committee

for the year ended 27 September 1997

The Senior Executive Remuneration and Benefits Committee consists exclusively of non-executive directors, namely:

Mr. C.P. King C.B.E. (Chairman of the Committee)
Mr. T.C. Bonner C.B.E.
Mr. J.W. Cutts

No member of the Committee has any personal financial interest (other than the shareholdings set out on page 21), conflicts of interest arising from cross-directorships or day-to-day involvement in running the business.

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

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

The Committee generally meets three times a year.

Remuneration policy for executive directors

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

(a) Have regard to the directors' experience and the nature and complexity of their work in order to offer competitive salary and benefit arrangements that attract and retain management of the highest quality.

(b) Link individual remuneration packages to the Group's long-term performance through the use of long-term incentive schemes involving share options.

(c) Ensure that the performance-related elements of remuneration are relevant, demanding and business enhancing and designed to align the interests of directors and shareholders.

Executive Share Incentive Scheme 1996 ("the 1996 Scheme")

At the 1996 Annual General Meeting shareholders approved the 1996 Scheme, a description of which was contained in the 1995 Report and Accounts. Briefly, the 1996 Scheme provides that executive directors will take a percentage of any annual bonus in the form of shares on the basis that three years later a number of matching shares may be awarded dependent on the Group's performance in terms of total shareholder return as compared with a comparator group of companies. In the year under review executive directors and other senior employees took a total of 7,591 shares as part of their annual bonus for the 1995/6 financial year.

Pensions

All the executive directors with the exception of Mr. D.C. Samardich are currently members of the Group's Senior Executive Retirement and Death Benefits Plan. Subject to Inland Revenue limits, members are eligible for a pension of up to two thirds of final pensionable salary upon retirement at the age of 60, provided that the minimum service requirement of 20 years has been met. Additionally, a defined contribution scheme is in place for the benefit of Mr. I.A.H. McPhie.

Mr D.C. Samardich is a member of the Cadillac Rubber and Plastics 401 (k) Defined Contribution Savings Plan.

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

Contracts of service

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

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

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

Report of the Remuneration Committee continued

for the year ended 27 September 1997

Directors' Emoluments

	Basic Salary & fees	Other Benefits	Annual Bonus	Total Emoluments excluding Pensions		Pension Contributions		Total Emoluments including Pensions	
				1997	1996	1997	1996	1997	1996
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Executive									
S.J. Willcox (highest paid director)	**177**	**13**	**57**	**247**	224	**18**	16	**265**	240
D.C. Samardich	**129**	**14**	**41**	**184**	182	**65**	63	**249**	245
I.A.H. McPhie	**127**	**17**	**43**	**187**	173	**12**	18	**199**	191
S.J. Stone	**113**	**12**	**36**	**161**	149	**11**	10	**172**	159
R.A. Hunt (appointed 1.9.97)	**8**	**1**	**4**	**13**	-	**1**	-	**14**	-
Non-executive									
Lord Farnham (Chairman, retired 22.1.97)	**13**	-	-	**13**	40	-	-	**13**	40
J.M. Pinckard (retired 22.1.97)	**6**	-	-	**6**	15	-	-	**6**	15
T.C. Bonner	**18**	-	-	**18**	15	-	-	**18**	15
C.P. King (appointed Chairman from 22.1.97)	**34**	-	-	**34**	15	-	-	**34**	15
*J.W. Cutts (appointed 1.6.97)	**6**	-	-	**6**	-	-	-	**6**	-
J.M. Woolley (retired 28.9.96)	-	-	-	-	15	-	-	-	15
Total 1997	**631**	**57**	**181**	**869**	-	**107**	-	**976**	-
Total 1996	618	49	161	-	828	-	107	-	935

* The emoluments of J.W. Cutts include fees of £6,000 paid during the year to West Merchant Bank Limited, of which J.W. Cutts is a director, relating to services provided.

No director waived emoluments in respect of the year ended 27 September 1997.

Executive Directors' Pensions

Following the Greenbury Report and subsequent work by the Institute of Actuaries and the Faculty of Actuaries, the Stock Exchange Listing Rules have been amended to require the disclosure of certain additional information relating to the pensions of executive directors. This information is set out below.

	S.J. Willcox	S.J. Stone	I.A.H. McPhie	R.A. Hunt
Accrued entitlement as at 27 September 1997	£81,316 p.a.	£55,463 p.a.	£5,539 p.a.	£5,676 p.a.
Increase in accrued entitlement over the period in excess of the increase awarded to deferred pensioners	£10,841 p.a.	£5,917 p.a.	£2,642 p.a.	£239 p.a.
Contributions paid by each director over the period	£9,755	£6,187	£4,570	£328
Increase in the transfer value over the year (net of the director's contributions)	£65,900	£29,645	£32,362	£1,330

The company's contribution to Mr I.A.H. McPhie's defined contribution scheme amounted to £14,648.

Mr D.C. Samardich is a member of a Defined Contribution Plan in the United States and the disclosures made above are not relevant in his case.

Report of the Remuneration Committee continued

for the year ended 27 September 1997

Directors' Interests

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

	At the beginning of the year or date of appointment	At the end of the year
C.P. King	1,000	3,000
T.C. Bonner	2,000	2,000
I.A.H. McPhie	5,000	7,624
D.C. Samardich	-	1,470
S.J. Stone	669	4,067
S.J. Willcox	5,385	8,335
J.W. Cutts	-	-
R.A. Hunt	782	782

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

Executive Share Option Scheme:

	Number of Options At 28/9/96	Granted during the year	Exercised during the year	Number of Options At 27/9/97	Exercise Price (£)	Exercisable at any time up to
S.J. Willcox	15,881	-	-	-	6.30	-
	24,000	-	-	24,000	5.81	Feb 2004
	60,000	-	-	60,000	5.10	Jun 2005
D.C. Samardich	17,000	-	-	17,000	5.81	Dec 1999
S.J. Stone	15,000	-	-	15,000	5.81	Feb 2004
	24,000	-	-	24,000	5.10	Jun 2005
I.A.H. McPhie	39,000	-	-	39,000	5.03	Oct 2002
R.A. Hunt	15,000	-	-	15,000	5.10	May 2005

15,881 options held by S.J. Willcox lapsed during the year.

Savings Related Share Option Schemes:

	Number of Options At 28/9/96	Granted during the year	Exercised during the year	Number of Options At 27/9/97	Exercise Price (£)	Exercisable during
S.J. Willcox	4,730	-	-	4,730	1.90	1998
	5,301	-	-	5,301	2.55	1999
	841	-	-	841	3.80	2003
S.J. Stone	901	-	901	-	3.71	-
	1,177	-	1,177	-	2.55	-
	1,891	-	-	1,891	1.90	1998
	1,125	-	-	1,125	3.80	2001
	-	1,322	-	1,322	5.79	2002
R.A. Hunt	1,062	-	-	1,062	3.67	2002
	-	1,203	-	1,203	5.79	2002
	1,683	-	-	1,683	3.80	2003

At 27 September 1997 other employees held options for 489,978 ordinary shares, exercisable between 1997 and 2004, at option prices ranging from £1.90 to £5.79.

All options are over ordinary shares of £1 each.

At 27 September 1997, the market price of Avon Rubber shares was £6.20 (1996 £7.07). During the year the highest and lowest market prices were £7.56 and £5.66 respectively.

Statement of Directors' Responsibilities

for the year ended 27 September 1997

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

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

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

By order of the board
C.L. Martin, Secretary
Bradford-on-Avon, Wiltshire
4 December 1997

Auditors' Report

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

We have audited the financial statements on pages 23 to 47.

Respective responsibilities of directors and auditors

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group at 27 September 1997 and of the profit, total recognised gains and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand
Chartered Accountants and Registered Auditors
Bristol, 4 December 1997

Consolidated Profit and Loss Account

for the year ended 27 September 1997

	Note	1997 Before exceptional items £'000	1997 Exceptional items £'000	1997 Total £'000	1996 £'000
Turnover	2				
Continuing activities		251,948	-	251,948	250,117
Discontinued activities: Tyres division		38,700	-	38,700	97,354
		290,648	-	290,648	347,471
Cost of sales		(239,466)	-	(239,466)	(286,739)
Gross Profit		51,182	-	51,182	60,732
Net operating expenses	3&5	(31,424)	(4,000)	(35,424)	(35,812)
Share of profits of associated companies	4	80	-	80	184
Operating profit	2				
Continuing activities		19,393	(4,000)	15,393	16,887
Discontinued activities: Tyres division		445	-	445	8,217
		19,838	(4,000)	15,838	25,104
Profit on sale of discontinued activities	5	-	11,047	11,047	-
Profit on ordinary activities before interest		19,838	7,047	26,885	25,104
Interest payable	6	(2,759)	-	(2,759)	(3,748)
Interest receivable	6	2,233	-	2,233	153
Profit on ordinary activities before taxation	7	19,312	7,047	26,359	21,509
Taxation	8	(6,840)	(224)	(7,064)	(7,096)
Profit on ordinary activities after taxation		12,472	6,823	19,295	14,413
Minority interests		(81)	-	(81)	(800)
Profit for the year		12,391	6,823	19,214	13,613
Dividends (including non-equity interests)	9	(5,800)	-	(5,800)	(5,273)
Retained profit for the year		6,591	6,823	13,414	8,340
Earnings per ordinary share	10				
Overall				70.8p	50.6p
All activities before exceptional items		45.6p			50.6p
Continuing activities before exceptional items		47.3p			32.6p

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

Consolidated Statement of Total Recognised Gains & Losses

for the year ended 27 September 1997

	Note	1997 £'000	1996 £'000
Profit for the year		19,214	13,613
Unrealised surplus on property revaluation	13	-	2,484
Net exchange differences on overseas investments	28	(1,966)	(148)
Total gains and losses for the year		17,248	15,949

Avon Rubber p.l.c.

Consolidated Balance Sheet

at 27 September 1997

	Note	1997 £'000	1997 £'000	1996 £'000	1996 £'000
Fixed assets					
Tangible assets	13		**57,073**		91,825
Investments	15		**1,450**		1,566
			58,523		93,391
Current assets					
Stocks	18	**20,224**		36,573	
Debtors – Amounts falling due within one year	19	**47,953**		66,897	
Debtors – Amounts falling due after more than one year	19	**3,021**		3,184	
Investments	20	**35,000**		-	
Cash at bank and in hand		**16,281**		11,489	
		122,479		118,143	
Creditors					
Amounts falling due within one year	21	**47,918**		78,553	
Net current assets			**74,561**		39,590
Total assets less current liabilities			**133,084**		132,981
Creditors					
Amounts falling due after more than one year	22	**18,361**		34,273	
Provisions for liabilities and charges	23	**6,156**		3,776	
			24,517		38,049
Net assets			**108,567**		94,932
Capital and reserves					
Share capital	27		**27,934**		27,452
Share premium account	28		**32,243**		31,342
Revaluation reserve	28		**2,411**		2,812
Profit and loss account	28		**43,203**		29,196
Shareholders' funds (incl non-equity interests)	26		**105,791**		90,802
Minority interests			**2,776**		4,130
			108,567		94,932

These financial statements were approved by the board of directors on 4 December 1997 and were signed on its behalf by:

C.P. King

S.J. Willcox

Parent Company Balance Sheet

at 27 September 1997

	Note	1997 £'000	1997 £'000	1996 £'000	1996 £'000
Fixed assets					
Tangible assets	14		**2,081**		9,141
Investments	16		**95,040**		82,585
			97,121		91,726
Current assets					
Debtors	19	**3,940**		3,484	
Investments	20	**35,000**		-	
Cash at bank and in hand		**873**		10,929	
		39,813		14,413	
Creditors					
Amounts falling due within one year	21	**38,328**		7,007	
Net current assets			**1,485**		7,406
Total assets less current liabilities			**98,606**		99,132
Creditors					
Amounts falling due after more than one year	22	**1,052**		10,186	
Provisions for liabilities and charges	24	**12**		60	
			1,064		10,246
Net assets			**97,542**		88,886
Capital and reserves					
Share capital	27		**27,934**		27,452
Share premium account	29		**32,243**		31,342
Merger reserve	29		**16,439**		16,439
Revaluation reserve	29		**409**		616
Profit and loss account	29		**20,517**		13,037
Shareholders' funds (incl non-equity interests)			**97,542**		88,886

These financial statements were approved by the board of directors on 4 December 1997 and were signed on its behalf by:

C.P. King.

S.J. Willcox

Avon Rubber p.l.c.

Consolidated Cash Flow Statement

for the year ended 27 September 1997

	Note	1997 £'000	1997 £'000	1996 £'000	1996 £'000
Net cash flow from operating activities	30				
Continuing activities	35	21,312		29,116	
Discontinued activities		(1,725)		12,440	
			19,587		41,556
Returns on investments and servicing of finance					
Interest received		1,651		153	
Interest paid		(2,276)		(3,694)	
Interest paid on finance leases		(160)		(369)	
Associated company dividends		211		159	
Preference dividends paid		(25)		(25)	
Dividends paid to minority shareholders		(245)		(245)	
			(844)		(4,021)
Taxation					
Corporation tax paid			(7,803)		(4,723)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(10,230)		(16,572)	
Sale of tangible fixed assets		1,102		363	
Purchase of fixed asset investments		(220)		(194)	
Sale of fixed asset investments		14		-	
			(9,334)		(16,403)
Acquisitions and disposals					
Purchase of shares in subsidiary undertakings	31	(1,348)		(4,900)	
Cash received on sale of subsidiary undertakings	32	46,394		-	
Net overdrafts transferred	32	11,390		-	
			56,436		(4,900)
Equity dividends paid			(5,097)		(4,787)
Net cash inflow before management of liquid resources and financing			52,945		6,722
Management of liquid resources					
Increase in cash deposits treated as liquid resources	20		(35,000)		-
Financing					
Issue of ordinary shares		1,383		302	
Issue of shares to minority shareholders		-		128	
Repayment of loans		(12,265)		(5,835)	
New finance leases		-		761	
Principal payments under finance leases		(698)		(1,162)	
Decrease in financing of trade debtors		(169)		(533)	
			(11,749)		(6,339)
Increase in cash in the period	33		6,196		383

Accounting Policies

for the year ended 27 September 1997

Basis of Accounting

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

Accounting period

The company's accounting period ends on the Saturday nearest to 30 September each year. The period ended 27 September 1997 consisted of 52 weeks (1996 52 weeks).

Consolidation

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

Research and development

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

Pensions and other post retirement benefits

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

Tangible fixed assets

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

Deferred taxation

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

Exchange rates

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

Accounting Policies continued

for the year ended 27 September 1997

Fixed asset investments

Fixed asset investments are stated at cost less amounts written off to reflect any permanent diminution in value.

Leased assets

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

Stocks

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

Notes to the Financial Statements

for the year ended 27 September 1997

1. Parent Company

As permitted by S230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's profit for the financial year was £12,319,000 (1996 £6,072,000).

2. Segmental Information

a) External sales by destination:

	1997 Continuing activities £'000	1997 Discontinued activities £'000	1997 Total £'000
United Kingdom	53,828	24,325	78,153
Other European	72,674	10,417	83,091
North America	119,355	2,486	121,841
Rest of World	6,091	1,472	7,563
	251,948	38,700	290,648

	1996 Continuing activities £'000	1996 Discontinued activities £'000	1996 Total £'000
United Kingdom	55,568	59,896	115,464
Other European	69,207	29,900	99,107
North America	118,882	4,093	122,975
Rest of World	6,460	3,465	9,925
	250,117	97,354	347,471

(b) By origin:

1997	External Sales £'000	Inter Segment Sales £'000	Operating Profit £'000	Operating Net Assets £'000
Continuing activities				
United Kingdom	99,907	2,271	5,305	23,156
Other European	34,080	2,462	2,066	12,337
North America	117,961	139	12,022	45,636
	251,948	4,872	19,393	81,129
Exceptional items – United Kingdom	-	-	(4,000)	(3,585)
	251,948	4,872	15,393	77,544
Discontinued activities				
United Kingdom	33,332	4,233	701	-
Other European	5,368	-	(256)	-
North America	-	-	-	-
	38,700	4,233	445	-
Total	290,648	9,105	15,838	77,544

Notes to the Financial Statements continued

for the year ended 27 September 1997

2. Segmental Information continued

(b) By origin: continued

1996	External Sales £'000	Inter Segment Sales £'000	Operating Profit £'000	Operating Net Assets £'000
Continuing activities				
United Kingdom	98,888	579	6,456	26,157
Other European	35,694	2,572	1,724	15,377
North America	115,535	-	8,707	43,054
	250,117	3,151	16,887	84,588
Discontinued activities				
United Kingdom	81,174	11,440	8,002	46,166
Other European	16,180	-	215	2,292
North America	-	-	-	-
	97,354	11,440	8,217	48,458
Total	347,471	14,591	25,104	133,046

(c) By business sector:

1997	External Sales £'000	Inter Segment Sales £'000	Operating Profit £'000	Operating Net Assets £'000
Continuing activities				
Automotive components	175,194	-	12,287	60,403
Technical products	76,754	3,942	7,106	20,726
	251,948	3,942	19,393	81,129
Exceptional items				
Automotive components	-	-	(700)	(519)
Technical products	-	-	(3,300)	(3,066)
	251,948	3,942	15,393	77,544
Discontinued activities				
Tyres and processed materials	38,700	5,310	445	-
Total	290,648	9,252	15,838	77,544

1996	External Sales £'000	Inter Segment Sales £'000	Operating Profit £'000	Operating Net Assets £'000
Continuing activities				
Automotive components	161,566	-	10,219	62,595
Technical products	88,551	3,881	6,668	21,993
	250,117	3,881	16,887	84,588
Discontinued activities				
Tyres and processed materials	97,354	13,473	8,217	48,458
Total	347,471	17,354	25,104	133,046

Following the sale of the Tyres division, the results shown in the profit and loss account have been analysed between continuing and discontinued activities and 1996 figures for operating profit have been adjusted. Central costs amounting to £1,274,000 have been reallocated to Automotive Components and Technical Products on the basis of relative sales.

Notes to the Financial Statements continued

for the year ended 27 September 1997

(d) Reconciliation of operating net asset analysis

	1997 £'000	1996 £'000
Consolidated balance sheet	**108,567**	94,932
Borrowings	**18,801**	43,596
Interest bearing bills payable	**-**	2,244
Interest bearing bank deposits	**(49,824)**	(7,726)
Operating net assets	**77,544**	133,046

(e) Employees

The number of employees during the year was:

	1997 Year end	1997 Average	1996 Year End	1996 Average
Automotive components	**3,542**	**3,506**	3,131	3,072
Technical products	**1,436**	**1,425**	1,637	1,629
Tyres and processed materials	**-**	**603**	1,408	1,419
	4,978	**5,534**	6,176	6,120

3. Cost of sales and other operating income and expenses

1997	Continuing activities £'000	Discontinued activities £'000	Total £'000
Turnover	**251,948**	**38,700**	**290,648**
Cost of sales	**(205,140)**	**(34,326)**	**(239,466)**
Gross profit	**46,808**	**4,374**	**51,182**
Distribution costs	**(5,061)**	**(2,345)**	**(7,406)**
Administrative expenses	**(23,024)**	**(2,058)**	**(25,082)**
Other operating income	**590**	**474**	**1,064**
Net operating expenses	**(27,495)**	**(3,929)**	**(31,424)**
Share of profits of associated companies	**80**	**-**	**80**
Operating profit	**19,393**	**445**	**19,838**

1996	Continuing activities £'000	Discontinued activities £'000	Total £'000
Turnover	250,117	97,354	347,471
Cost of sales	(205,431)	(81,308)	(286,739)
Gross profit	44,686	16,046	60,732
Distribution costs	(5,196)	(5,138)	(10,334)
Administrative expenses	(23,233)	(3,679)	(26,912)
Other operating income	446	988	1,434
Net operating expenses	(27,983)	(7,829)	(35,812)
Share of profits of associated companies	184	-	184
Operating profit	16,887	8,217	25,104

Notes to the Financial Statements continued

for the year ended 27 September 1997

4. Associated companies

	1997 £'000	1997 £'000	1996 £'000	1996 £'000
Group share of profit		**80**		184
Less: taxation	**13**		68	
received in dividend	**211**	**224**	159	227
Decrease in interest in associated companies		**(144)**		(43)

Name of Company	Share Capital	Held by the Group	Accounting Date	Basis of Consolidation
Ames-Avon Industries USA	2,000 shares of nil par value	49%	31 December	Audited accounts for 1996. Unaudited accounts to September 1997.
Gold Seal-Avon Polymers PVT, India	4,350,000 shares of 10 rupees each	50%	30 September	Unaudited accounts to September 1997.

5. Exceptional items

On 14 March 1997, the Group completed the disposal of its Tyres division. The profit on the disposal amounted to £12,347,000 and there were disposal costs amounting to £1,300,000. The net gain of £11,047,000 has been included in the profit and loss account as an exceptional item and is net of £2,328,000 of goodwill previously written off to reserves (see note 32).

Also included as exceptional is a provision of £4,000,000, being the estimated cost of relocating our UK Technical Products and Automotive Components businesses currently based on the Cooper-Avon site in Melksham, Wiltshire.

6. Net interest payable

	1997 £'000	1996 £'000
Bank loans and overdrafts	**1,918**	2,305
Other loans	**616**	1,074
	2,534	3,379
On finance leases	**225**	369
	2,759	3,748
Interest receivable	**(2,233)**	(153)
	526	3,595

Notes to the Financial Statements continued

for the year ended 27 September 1997

7. Profit on ordinary activities before taxation

	1997 £'000	1996 £'000
Profit on ordinary activities before taxation is stated after crediting:		
Rent receivable	**84**	83
Gain/(Loss) on foreign exchange	**130**	(22)
and after charging:		
Depreciation for the year on tangible fixed assets:		
owned assets	**9,356**	11,073
leased assets	**1,144**	1,956
Provision for permanent diminution in value of fixed assets	**213**	301
Auditors' remuneration for:		
Audit (Company £38,000; 1996 £28,000)	**295**	318
Other services to UK members of the Group including taxation, and disposal of the Tyre Division £355,000	**510**	88
Research and development	**5,784**	8,164
Operating leases:		
plant and machinery	**2,590**	3,046
other assets	**1,108**	1,292

8. Taxation

	1997 £'000	1996 £'000
The taxation charge, based on the results for the year, comprises:		
Tax charge on operating activities:		
United Kingdom corporation tax at 32% (1996 33%)	**1,580**	3,824
Overseas taxes	**5,157**	3,146
Associated company	**13**	68
	6,750	7,038
Deferred taxation	**90**	58
	6,840	7,096
Tax charge on exceptional items:		
United Kingdom corporation tax at 32%	**224**	-

The corporation tax charge for the year is reduced by an excess of capital allowances over depreciation of £1,006,000 (1996 £1,522,000).

An analysis of provided and unprovided deferred tax at 31% (1996 33%) is shown below:

	Amount provided		Amount unprovided	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Capital allowances	**(73)**	(15)	**(4,624)**	(8,035)
Pension deferral	**(169)**	41	**(24)**	403
Post retirement healthcare	**843**	769	**-**	-
Other timing differences	**113**	68	**899**	265
Losses	**-**	-	**156**	780
Asset/(potential liability)	**714**	863	**(3,593)**	(6,587)

In addition to the above there are losses of £954,000 (in terms of tax) available for carry forward.

Notes to the Financial Statements continued

for the year ended 27 September 1997

9. Dividends

	1997 £'000	1996 £'000
Dividends on equity shares:		
Ordinary – Interim paid of 6.15p per share (1996 5.75p per share)	**1,660**	1,542
Ordinary – Final proposed of 15.0p per share (1996 13.75p per share)	**4,115**	3,706
	5,775	5,248
Dividends on non-equity shares:		
Preference 4.9% paid	**25**	25
	5,800	5,273

10. Earnings per share

Earnings per share amount to 70.8p (1996 50.6p) and are based on a profit of £19,189,000 (1996 £13,588,000) and 27,114,000 ordinary shares (1996 26,875,000) being the weighted average of the shares in issue during the year.

Earnings per share on all operations before exceptional items amount to 45.6p (1996 50.6p) and are based on a profit of £12,366,000 (1996 £13,588,000).

Earnings per share on continuing activities before exceptional items amount to 47.3p (1996 32.6p) and are based on a profit of £12,838,000 (1996 £8,754,000).

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

11. Pensions and other retirement benefits

Pensions

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

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

A transfer value of £75.1 million was paid from the pension fund to the trustee of Cooper-Avon Tyres Limited retirement pension plan in December 1997, in respect of those members who were employees of Avon Tyres Limited and who elected to transfer their pension benefits on joining the new Cooper-Avon Tyres Limited plan on 1 August 1997, such members having retained temporary membership of the Avon Rubber retirement and death benefits plan up to 31 July 1997.

11. Pensions and other retirement benefits continued

Pension cost for the year ended 27 September 1997 is based on the actuarial valuation as at 31 March 1997 which took into consideration the changes announced in the July 1997 budget. The principal actuarial assumptions used are that the annual rate of return on investments would be 2.5% (1996 2.5%) higher than the annual increase in pensionable remuneration and 4% (1996 4%) higher than the annual increase in present and future pensions in payment. The pension cost to the Group in the year ended 27 September 1997 in respect of UK employees was £2,727,000 (1996 £3,938,000). The reduction in pension costs arises mainly from the sale of the Tyres business, £0.9 million, and also as a consequence of the actuarial valuation, £0.4 million. A prepayment of £546,000 (1996 provision of £1,382,000) is included in the Group balance sheet representing the excess of the amount funded over the accumulated pension cost.

For employees overseas, pension arrangements are principally defined contribution plans. The cost to the Group in the year ended 27 September 1997 in respect of overseas employees was £1,774,000 (1996 £2,106,000).

Other post retirement benefits

Cadillac Rubber and Plastics Inc. operates a medical cover scheme under the terms of which retiring employees who have ten years service and their dependants are entitled to medical cover from the date of their retirement for a period of three years, or until they reach the age of 65, whichever is the earlier. The amount charged to the Group profit and loss account in the year ended 27 September 1997 is £238,000 (1996: £183,000), and the accrued liability of £2,571,000 (1996: £2,394,000) is included in provisions for liabilities and charges.

12. Directors & Employees

Detailed disclosures of directors' remuneration and share options are given in the Report of the Remuneration Committee on pages 19 to 21.

	1997 **£'000**	1996 £'000
Staff costs during the year were:		
Wages and salaries	**82,919**	91,746
Social security costs	**8,210**	9,661
Other pension costs	**4,623**	6,464
	95,752	107,871

Notes to the Financial Statements continued

for the year ended 27 September 1997

13. Tangible fixed assets – Group

	Freeholds £'000	Long leaseholds £'000	Short leaseholds £'000	Plant and machinery £'000	Total £'000
Cost or valuation:					
At 29 September 1996	20,583	1,170	317	165,399	187,469
Exchange differences	(1,029)	(6)	(2)	(4,479)	(5,516)
Subsidiaries disposed	(8,811)	-	(184)	(63,019)	(72,014)
Reclassifications	1,425	-	-	(1,425)	-
Additions at cost	707	-	-	7,455	8,162
Disposals	(385)	-	(6)	(2,876)	(3,267)
At 27 September 1997	**12,490**	**1,164**	**125**	**101,055**	**114,834**
At Cost	1,748	364	125	101,055	103,292
At Valuation	10,742	800	-	-	11,542
	12,490	**1,164**	**125**	**101,055**	**114,834**
Depreciation:					
At 29 September 1996	712	23	249	94,660	95,644
Exchange differences	(369)	-	(1)	(2,757)	(3,127)
Subsidiaries disposed	(662)	-	(178)	(42,378)	(43,218)
Reclassifications	606	-	-	(606)	-
For the year	741	47	7	9,918	10,713
On disposals	(64)	-	(6)	(2,181)	(2,251)
At 27 September 1997	**964**	**70**	**71**	**56,656**	**57,761**
Net book value:					
at 27 September 1997	**11,526**	**1,094**	**54**	**44,399**	**57,073**
At 28 September 1996	19,871	1,147	68	70,739	91,825

	1997 £'000	1996 £'000
Net book value comprises:		
Owned assets	**52,409**	83,535
Leased assets	**4,664**	8,290
	57,073	91,825

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

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

	Freeholds £'000	Long leaseholds £'000	Short leaseholds £'000
Cost	14,266	558	125
Depreciation	4,372	205	71
Net book value:			
at 27 September 1997	**9,894**	**353**	**54**
At 28 September 1996	17,565	383	52

14. Tangible fixed assets – Parent

	Freeholds £'000	Long leaseholds £'000	Plant and machinery £'000	Total £'000
Cost or valuation:				
At 29 September 1996	8,442	800	240	9,482
Subsidiaries disposed	(8,154)	-	-	(8,154)
Reclassifications	1,284	-	(1,284)	-
Additions at cost	-	-	44	44
Transfer from Group companies	-	-	3,021	3,021
Disposals	(275)	-	(385)	(660)
At 27 September 1997	**1,297**	**800**	**1,636**	**3,733**
At Cost	-	-	1,636	1,636
At Valuation	1,297	800	-	2,097
	1,297	**800**	**1,636**	**3,733**
Depreciation:				
At 29 September 1996	232	-	109	341
Subsidiaries disposed	(606)	-	-	(606)
Reclassifications	606	-	(606)	-
For the year	243	24	112	379
Transfer from Group companies	-	-	1,830	1,830
On disposals	(69)	-	(223)	(292)
At 27 September 1997	**406**	**24**	**1,222**	**1,652**
Net book value at 27 September 1997	**891**	**776**	**414**	**2,081**
Net book value at 28 September 1996	8,210	800	131	9,141

	1997 £'000	1996 £'000
Net book value comprises:		
Owned assets	**1,305**	8,341
Leased assets	**776**	800
	2,081	9,141

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

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

	Freeholds £'000	Long leaseholds £'000
Cost	1,183	327
Depreciation	223	159
Net book value at 27 September 1997	**960**	**168**
Net book value at 28 September 1996	7,583	175

Notes to the Financial Statements continued

15. Fixed asset investments – Group

	Associated companies £'000	Other investments other than loans £'000	Total £'000
Unlisted shares at cost, less amount written off:			
At 29 September 1996	367	546	913
Addition: Gold Seal-Avon Polymers PVT	221	-	221
Disposals	-	(124)	(124)
Exchange differences	(36)	(2)	(38)
At 27 September 1997	**552**	**420**	**972**
Group share of profits less losses of associated companies:			
At 29 September 1996	653	-	653
Exchange differences	(31)	-	(31)
For the year	(144)	-	(144)
At 27 September 1997	**478**	**-**	**478**
Net book value at 27 September 1997	**1,030**	**420**	**1,450**
Net book value at 28 September 1996	1,020	546	1,566

16. Fixed asset investments – Parent

	Group undertakings £'000
Unlisted shares at cost, less amount written off:	
At 29 September 1996	82,585
Investment in Avon Tyres Limited transferred from a subsidiary	27,500
Disposal of Avon Tyres Limited	(27,500)
	82,585
Loan to Group undertaking	12,455
Net book value at 27 September 1997	**95,040**

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

A list of Group undertakings appears on page 47.

17. Other financial commitments

	Group 1997 £'000	Group 1996 £'000	Parent 1997 £'000	Parent 1996 £'000
Capital expenditure committed	**1,444**	1,270	**-**	-

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 for non-cancellable operating leases are:

	1997 Land and buildings £'000	1997 Other assets £'000	1996 Land and buildings £'000	1996 Other assets £'000
For leases expiring:				
Within 1 year	**-**	**327**	6	500
In 2-5 years	**238**	**338**	298	795
Over 5 years	**807**	**10**	1,280	14
	1,045	**675**	1,584	1,309

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

18. Stocks

	1997 £'000	1996 £'000
Raw materials	**6,735**	9,031
Work in progress	**5,619**	8,286
Finished goods	**7,870**	19,256
	20,224	36,573

Notes to the Financial Statements continued

for the year ended 27 September 1997

19. Debtors

	Group 1997 £'000	Group 1996 £'000	Parent 1997 £'000	Parent 1996 £'000
Amounts falling due within one year:				
Trade debtors	**39,483**	60,044	**178**	23
Group undertakings	**-**	-	**815**	526
Undertakings in which the Group has a participating interest	**235**	303	**-**	-
Corporation tax	**2,536**	2,270	**1,543**	2,619
Other debtors	**4,502**	3,083	**1,357**	308
Prepayments	**1,197**	1,197	**47**	8
	47,953	66,897	**3,940**	3,484
Amounts falling due after more than one year:				
Deferred tax	**978**	863	**-**	-
Other debtors	**1,497**	2,321	**-**	-
Pension fund prepayment	**546**	-	**-**	-
	3,021	3,184	**-**	-
	50,974	70,081	**3,940**	3,484

20. Current asset investments

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

21. Creditors – amounts falling due within one year

	Group 1997 £'000	Group 1996 £'000	Parent 1997 £'000	Parent 1996 £'000
Financing of trade debtors	**-**	8,138	**-**	-
Current instalments due on loans	**181**	302	**-**	-
Bank overdrafts	**817**	2,351	**-**	-
Finance leases	**687**	781	**-**	-
Total borrowings falling due within 1 year	**1,685**	11,572	**-**	-
Trade creditors	**19,231**	34,315	**232**	44
Group undertakings	**-**	-	**32,291**	952
Bills of exchange	**1,710**	3,878	**-**	-
Corporation tax	**3,782**	4,805	**283**	271
Other taxation and social security	**4,389**	5,554	**120**	2
Other creditors	**2,801**	2,374	**559**	24
Accruals	**10,205**	12,349	**728**	2,008
Proposed dividend on ordinary shares	**4,115**	3,706	**4,115**	3,706
	47,918	78,553	**38,328**	7,007

Notes to the Financial Statements continued

for the year ended 27 September 1997

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

	Group		Parent	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Bank loans (secured £343,000. 1996 £856,000)	**15,001**	28,849	**1,052**	10,186
Finance leases up to 5 years	**2,013**	3,040	-	-
Finance leases over 5 years	**102**	135	-	-
Total borrowings falling due after more than one year	**17,116**	32,024	**1,052**	10,186
Other creditors	**983**	2,249	-	-
Deferred tax	**262**	-	-	-
	18,361	34,273	**1,052**	10,186

Borrowings – Group

	1997		1996	
	Bank overdrafts and loans £'000	Other borrowings £'000	Bank overdrafts and loans £'000	Other borrowings £'000
In 1 year or less, or on demand	**998**	**687**	2,653	8,919
Between 1 and 2 years	**102**	**735**	213	808
Between 2 and 5 years	**8,662**	**1,278**	28,572	2,232
Over 5 years	**6,237**	**102**	64	135
	15,999	**2,802**	31,502	12,094
Total borrowings		**18,801**		43,596

Bank loans falling due in over 5 years are repayable by instalments at rates of interest varying between 5.5% and 6.15% per annum. Revolving banking facilities form a major part of the loans falling between two and five years.

Borrowings – Parent

	1997 £'000	1996 £'000
Bank loans due between 2 and 5 years	**1,052**	10,186

Net Funds/(Borrowings) – Group

	1997 £'000	1996 £'000
Total borrowings as above	**(18,801)**	(43,596)
Cash at bank and in hand	**16,281**	11,489
Bank deposits treated as current asset investments	**35,000**	-
Net funds/(borrowings)	**32,480**	(32,107)

Notes to the Financial Statements continued

for the year ended 27 September 1997

23. Provision for liabilities and charges – Group

	Pension deferral £'000	Other post retirement benefits £'000	Other £'000	Total £'000
Balance at 29 September 1996	1,382	2,394	-	3,776
Charged to profit and loss account	2,727	238	4,000	6,965
Payments in the year	(4,105)	-	(415)	(4,520)
Discontinued activities	(550)	-	-	(550)
Exchange differences	-	(61)	-	(61)
Reclassified as pension fund prepayment	546	-	-	546
Balance at 27 September 1997	**-**	**2,571**	**3,585**	**6,156**

Other provisions at 27 September 1997 of £3,585,000 are in respect of the relocation of our Technical Products and Automotive Components businesses currently based on the Cooper-Avon site in Melksham, Wiltshire.

24. Provision for liabilities and charges – Parent

	Pension deferral £'000
Balance at 29 September 1996	60
Charged to profit and loss account	126
Payments in the year	(174)
Balance at 27 September 1997	**12**

25. Contingent liabilities

	Group		Parent	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Guarantees of overdraft facilities and loans of Group undertakings	-	-	**17,129**	23,724
Bills payable endorsed	-	-	-	2,244
Other guarantees	**836**	902	-	-
	836	902	**17,129**	25,968

Notes to the Financial Statements continued

for the year ended 27 September 1997

26. Reconciliation of movements in shareholders' funds

	1997 £'000	1996 £'000
Opening shareholders' funds	**90,802**	82,303
Profit for the year	**19,214**	13,613
Revaluation surplus on land & buildings	**-**	2,484
Transfer of revaluation surplus on sale of subsidiary	**(74)**	-
Dividends, excluding scrip £269,000 (1996 £66,000)	**(5,531)**	(5,207)
Net exchange difference on overseas investments	**(1,966)**	(148)
New share capital subscribed (net)	**1,383**	302
Goodwill written off on acquisitions	**(365)**	(2,545)
Goodwill previously written off now charged to profit & loss account	**2,328**	-
Closing shareholders' funds	**105,791**	90,802
Equity shareholders' funds	**105,291**	90,302
Non-equity shareholders' funds	**500**	500
	105,791	90,802

27. Share capital

	1997 £'000	1996 £'000
Authorised:		
37,900,000 ordinary shares of £1 each	**37,900**	37,900
500,000 4.9% cumulative preference shares of £1 each	**500**	500
	38,400	38,400
Called up, allotted and fully paid:		
27,434,000 ordinary shares of £1 each	**27,434**	26,952
500,000 4.9% cumulative preference shares of £1 each	**500**	500
	27,934	27,452

	1997 Number	1996 Number
During the year the following ordinary shares were issued pursuant to the:		
Executive Share Option scheme	**40,000**	26,029
Savings Related Share Option schemes	**397,706**	99,694
Scrip dividend facility	**44,209**	13,473
	481,915	139,196

The Cumulative Preference Shares have a fixed cumulative dividend of 4.9% and are not redeemable. In the event of a winding up of the company they rank ahead of the Ordinary Shares and will be entitled to the amounts paid up thereon, any arrears of dividend and a premium equivalent to the difference between the nominal amount of capital paid up on such shares and the average quoted price for such shares for the preceding six months (net of any dividend arrears). Except under certain circumstances the shares carry no right to vote at general meetings.

Notes to the Financial Statements continued

for the year ended 27 September 1997

28. Share premium account and reserves – Group

	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000
At 29 September 1996	31,342	2,812	29,196
Premium on share options and scrip dividend	1,170	-	-
Transfer from revaluation reserve to profit and loss	-	(327)	327
Transfer on sale of subsidiary	-	(74)	-
Scrip dividend	(269)	-	269
Unrealised exchange differences			
on overseas investments	-	-	(2,450)
on related borrowings	-	-	484
Current year retained profit	-	-	13,414
Goodwill written off (see note 31)	-	-	(365)
Goodwill on disposal (see note 32)	-	-	2,328
At 27 September 1997	**32,243**	**2,411**	**43,203**
Avon Rubber p.l.c. and subsidiaries	32,243	2,411	42,725
Associated companies	-	-	478
	32,243	**2,411**	**43,203**

On 27 September 1997 the cumulative goodwill written off amounted to £43,955,000 (1996 £45,918,000).

29. Share premium account and reserves – Parent

	Share premium account £'000	Merger reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
At 29 September 1996	31,342	16,439	616	13,037
Premium on share options and scrip dividend	1,170	-	-	-
Transfer from revaluation reserve to profit and loss	-	-	(207)	207
Scrip dividend	(269)	-	-	269
Unrealised exchange differences	-	-	-	484
Current year retained profit	-	-	-	6,520
At 27 September 1997	**32,243**	**16,439**	**409**	**20,517**

Notes to the Financial Statements continued

for the year ended 27 September 1997

30. Net cash flow from operating activities

	1997 £'000	1996 £'000
Operating profit	**15,838**	25,104
Depreciation of tangible fixed assets	**10,713**	13,330
Profits on sale of tangible fixed assets	**(86)**	(6)
Loss on sale of fixed asset investment	**54**	-
Increase in stocks	**(1,892)**	(769)
Increase in debtors	**(8,534)**	(171)
Increase in creditors	**1,285**	5,271
Decrease in pension deferral	**(1,378)**	(1,250)
Associated company profits	**(80)**	(184)
Increase in provisions	**3,824**	209
Effect of foreign exchange rate changes	**(157)**	22
Net cash flow from operating activities	**19,587**	41,556

31. Purchase of shares in subsidiary undertakings

On 29 April 1997 the Group purchased the 35% minority interest in Avon-Rubena a.s. previously held by Rubena a.s. of the Czech Republic.

The cost of acquisition to Avon Rubber p.l.c. was £1,348,000. Goodwill of £365,000, being the excess of purchase cost over the minority interest at that date, has been written off direct to reserves.

On 1 October 1997 Avon-Rubena changed its name to Avon Automotive a.s.

32. Sale of subsidiary undertakings

The Avon Tyres division, comprising Avon Tyres Limited, Avon Pneumatiques SARL, Avon (Suisse) SA, Avon Reifen (Deutschland) Gmbh and Avon Technical Services Limited was sold to Cooper Tyre & Rubber Company UK Limited on 14 March 1997. Details in aggregate are as follows:

	£'000
Assets disposed of:	
Property	8,155
Other fixed assets and investments	20,698
Stocks	17,264
Debtors	26,656
Cash and bank balances	610
Creditors	(40,364)
Goodwill previously written off to reserves	2,328
Total	35,347
Profit on Sale	11,047
	46,394
Cash received on sale	47,694
Less expenses incurred on sale	(1,300)
Net overdrafts transferred	11,390
Net Cash inflow	**57,784**

The Avon Tyres division absorbed £1,725,000 of the net operating cash flows, paid £458,000 in respect of returns on investments and servicing of finance, £2,014,000 in respect of taxation, £1,675,000 in respect of capital expenditure and received £459,000 in respect of financing.

Notes to the Financial Statements continued

for the year ended 27 September 1997

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

	1997 £'000	1996 £'000
Increase in cash	**6,196**	383
Movements in loans and finance leases	**13,132**	6,769
Movement in liquid resources	**35,000**	-
Loans and finance leases transferred on sale of subsidiaries	**8,425**	-
Exchange differences	**1,834**	(160)
Movement in net debt in the period	**64,587**	6,992
Net debt at the beginning of the year	**(32,107)**	(39,099)
Net funds/(net debt) at the end of the year	**32,480**	(32,107)

34. Analysis of net funds/(net debt)

	At 29 Sept 1996 £'000	Reclassified £'000	Cash flow £'000	Exchange Movements £'000	Transferred on sale of subsidiary £'000	At 27 Sept 1997 £'000
Cash in bank and in hand	11,489	-	5,059	(267)	-	**16,281**
Overdrafts	(2,351)	-	1,137	397	-	**(817)**
Debt due after 1 year-	(28,849)	181	12,008	1,659	-	**(15,001)**
Debt due within 1 year	(8,440)	(181)	426	45	7,969	**(181)**
Finance leases	(3,956)	-	698	-	456	**(2,802)**
Current asset investments (see note 20)	-	-	35,000	-	-	**35,000**
	(32,107)	-	54,328	1,834	8,425	**32,480**

35. Cash flow relating to exceptional items

The operating cash flows include an outflow of £415,000 which relates to the £4,000,000 exceptional provision for the relocation of businesses (see note 5).

36. Related party transactions

	Sales to related party £'000	Purchases from related party £'000	Amount owed by related party £'000	Amount owed to related party £'000
Related party				
Cooper-Avon Tyres Limited	62	6,557	49	1,171
Gold Seal-Avon Polymers PVT	69	-	59	-

The Group's interest in Gold Seal-Avon Polymers PVT is stated on page 47.

Avon Tyres Limited (renamed Cooper-Avon Tyres Limited) was a wholly-owned subsidiary sold on the 14 March 1997.

37. Post balance sheet event

On 1 December 1997 the Group acquired the business, tangible fixed assets and inventory of Zatec Inc, a Massachusetts corporation, for £7,548,000 in cash and the assumption of current borrowings amounting to £119,000. At 31 December 1996 the book value of the assets being aquired was £594,000 and the operating profit in the year to 31 December 1996 was £773,000.

Group Undertakings and Participating Interests

at 27 September 1997

	Group Interest	Country in which incorporated
Held by Parent Company		
Avon Polymer Products Limited		
Avon Rubber Overseas Limited		
Avon Rubber Pension Trust Limited		
Held by Group Undertakings		
Avon Automotive Deutschland GmbH (formerly Avon Industrial Polymers (Deutschland) GmbH)		Germany
Avon Caoutchouc SA		France
Avon Injected Rubber and Plastics Inc.		USA
Avon Polimeros L.D.A.		Portugal
Avon Polymères France SA		France
Avon Rubber & Plastics Inc.		USA
Avon Rubber Holland BV		Netherlands
Avon Automotive a.s.* (formerly Avon-Rubena a.s.)		Czech Republic
Avon Spencer Moulton		France
Avon Vibration Management Systems Limited		
Avon-Ames Limited	51%	
Bell Avon Inc.	80%	USA
Cadillac Rubber and Plastics Inc.		USA
Cadillac Rubber and Plastics de Mexico SA de CV*		Mexico
Cadimex SA de CV*		Mexico
CQC PLC		
CT Rubber and Plastics Inc.	60%	USA
Nova Insurance Limited		Guernsey
Pacer Tool and Plastics Inc.		USA
Undertakings in which the Group has a participating interest		
Ames-Avon Industries*	49%	USA
Avon Marine Limited	10%	
Gold Seal-Avon Polymers PVT	50%	India

Shareholdings are ordinary shares and, except where shown, undertakings are wholly owned. Ames-Avon Industries and Gold Seal-Avon Polymers PVT are associated companies within the meaning of Statement of Standard Accounting Practice Number 1.

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

Except where indicated by * all companies have a year ending in September. Companies marked by * all have December year ends.

Except for Avon Rubber Pension Trust Limited, CQC PLC, and Nova Insurance Limited which are, respectively, a pension fund trustee, a manufacturer of specialised textiles products and an insurer, the activities of all of the above companies are the manufacture and/or distribution of rubber and other polymer-based products.

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

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

Shareholder Information

Shareholders

On 4 December 1997 the company had the following number of shareholders:

£1 ordinary shares.	1,715
4.9% cumulative preference shares of £1 each.	49

Of the ordinary shareholders, 1,069 (62.3%) had holdings of 1,000 shares or less.

Financial Calendar

Interim figures announced in May and final results in December.

Preference dividend paid on 30 June and 31 December.

Interim ordinary dividend declared in May and paid in July.

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

Annual General Meeting held in January.

Corporate Information

Registered Office	Bradford-on-Avon, Wiltshire Registered in England and Wales No. 32965
Company Secretary	C.L. Martin
Auditors	Coopers & Lybrand
Registrars & Transfer Office	KPMG, Festival Way Stoke on Trent Staffordshire ST1 5TA
Brokers	Cazenove & Co
Solicitors	Linklaters & Paines
Principal Bankers	Barclays Bank plc Comerica Inc. Midland Bank plc Societe Generale
Corporate Financial Advisors	Baring Brothers International Limited

Five Year Record

	1997 £'000	1996 £'000	1995 £'000	1994 £'000	1993 £'000
Turnover	**290,648**	347,471	306,467	280,247	265,685
Profit on trading	**30,471**	38,250	31,225	26,336	24,417
Share of profits of associated companies	**80**	184	255	331	373
	30,551	38,434	31,480	26,667	24,790
Depreciation	**(10,713)**	(13,330)	(11,254)	(10,918)	(9,833)
Operating profit before exceptional items	**19,838**	25,104	20,226	15,749	14,957
Reorganisation costs	**(4,000)**	-	-	-	-
Profit/(Loss) on sale of interest in subsidiary undertakings	**11,047**	-	-	(4,074)	-
Profit before interest	**26,885**	25,104	20,226	11,675	14,957
Interest	**(526)**	(3,595)	(4,035)	(3,393)	(3,943)
Profit before taxation	**26,359**	21,509	16,191	8,282	11,014
Taxation	**(7,064)**	(7,096)	(5,230)	(4,039)	(3,563)
Profit after taxation	**19,295**	14,413	10,961	4,243	7,451
Minority interests	**(81)**	(800)	9	(615)	(539)
Profit attributable to Avon shareholders	**19,214**	13,613	10,970	3,628	6,912
Preference dividends	**(25)**	(25)	(25)	(25)	(25)
Ordinary dividends	**(5,775)**	(5,248)	(4,744)	(4,396)	(4,109)
Retained profit	**13,414**	8,340	6,201	(793)	2,778
Fixed assets and investments	**58,523**	93,391	88,251	78,105	73,590
Working capital	**23,720**	37,424	44,011	44,573	43,915
Provisions	**(6,156)**	(3,776)	(4,817)	(5,497)	(4,502)
Net funds	**32,480**	-	-	-	-
Assets employed	**108,567**	127,039	127,445	117,181	113,003
Financed by:					
Ordinary share capital	**27,434**	26,952	26,813	26,667	26,531
Reserves attributable to Avon shareholders	**77,857**	63,350	54,990	48,372	52,742
Preference share capital	**500**	500	500	500	500
Minority shareholders' interests	**2,776**	4,130	6,043	6,489	11,497
Shareholders' capital employed	**108,567**	94,932	88,346	82,028	91,270
Net borrowings	**-**	32,107	39,099	35,153	21,733
Capital employed	**108,567**	127,039	127,445	117,181	113,003
Earnings per share	**70.8p**	50.6p	40.9p	13.6p	30.0p
Dividends per share	**21.15p**	19.5p	17.7p	16.5p	16.5p

The above includes the results of both Continuing and Discontinued activities.

Notice of Annual General Meeting

Notice is hereby given that the annual general meeting of shareholders will be held at The Bath Spa Hotel, Sydney Road, Bath on Wednesday 21 January 1998 at 2.30 pm for the following purposes:

1. To receive and consider the report of the directors and the financial statements for the year ended 27 September 1997 (Resolution No. 1).
2. To declare a dividend on the ordinary shares (Resolution No.2).
3. To re-elect directors:

   Mr J.W. Cutts retires under Article 91 and, being eligible, offers himself for re-election (Resolution No. 3)

   Mr R.A. Hunt retires under Article 91 and, being eligible, offers himself for re-election (Resolution No. 4)

   Mr T.C. Bonner retires by rotation and, being eligible, offers himself for re-election (Resolution No. 5).
4. To re-appoint Coopers & Lybrand as auditors (Resolution No. 6).
5. To transact any other routine business.
6. As special business to consider and, if thought fit, pass the following Resolution which will be proposed as a Special Resolution (Resolution No. 7).

"That the authority and power conferred on the directors by Article 11 (b) of the company's Articles of Association be renewed for the period ending on the date of the annual general meeting in 1999 or on 21 April 1999, whichever is the earlier, and for such period:

(a) the section 80 amount shall be £9,146,036 and

(b) the section 89 amount shall be £1,371,161"

7. As Special Business to consider and, if thought fit, pass the following Resolution which will be proposed as a Special Resolution (Resolution No. 8).

"That Article 85 of the company's Articles of Association be altered by deleting the proviso thereto".

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

By order of the board
C.L. Martin, Secretary
Bradford-on-Avon
19 December 1997

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

To be effective the instrument appointing a proxy, and any power of attorney or other authority under which it is executed (or a duly certified copy of any such power of authority) must be deposited at the company's registrar, KPMG Registrars, Festival Way, Stoke-on-Trent, Staffordshire ST1 5TA, not less than 48 hours before the time for holding the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting), for the taking of the poll at which it is to be used.

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

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

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

Notice of Annual General Meeting continued

Explanation of Resolution No. 7

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

The authority referred to above was renewed at the annual general meeting in 1997 and will, unless again renewed by the shareholders, expire at the end of the forthcoming annual general meeting. The authority can be renewed by way of a relatively simple special resolution. It is therefore proposed as Resolution 7 to renew the authority to allot shares up to an aggregate nominal amount of £9,146,036 (the "section 80 amount"), being an amount equal to 33$^1/_3$% of the existing issued ordinary share capital, so that the directors are empowered pursuant to and within that authority to issue shares for cash, either in connection with a rights issue or to persons other than existing shareholders provided that the issue to such persons would represent not more than £1,371,161 (the "section 89 amount") being 5% of the issued ordinary share capital as shown in the latest audited financial statements.

The proposed new section 80 amount and the proposed new section 89 amount have been adjusted to reflect the increase which has taken place during the year in the issued ordinary share capital as a result of employees and directors exercising their rights under the Avon Rubber p.l.c. Savings Related Share Option Scheme 1981, the Avon Rubber p.l.c. Sharesave Option Scheme 1992 and the Avon Rubber p.l.c. Executive Share Option Scheme 1986 (together "the Share Option Schemes") and as a result of shareholders taking up ordinary shares pursuant to the scrip dividend alternative approved by shareholders in 1992. 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 33$^1/_3$% of the existing issued ordinary share capital; this year 33$^1/_3$% of the existing issued ordinary share capital is the lesser amount and the section 80 amount has been calculated accordingly.

The authority sought in Resolution 7 complies with the guidelines of the Investment Committees and will, unless subsequently renewed by shareholders, expire at the end of the annual general meeting to be held in 1999 or 21 April 1999 if earlier.

No issue of shares (apart from issues in respect of the exercise of options granted or to be granted to employees or directors under option schemes approved by shareholders, including the Share Option Schemes, and issues in respect of the scrip dividend alternative) is currently contemplated and none will be made which will effectively alter the control of the company without the prior approval of the company in general meeting.

Explanation of Resolution No. 8

Article 85 of the company's Articles of Association provides as follows:-

"At each annual general meeting one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office. Provided that no director holding executive office including the office of Chairman, Vice-Chairman, Managing or Joint Managing Director shall be subject to retirement by rotation or be taken into account in determining the number of directors to retire."

The board considers that it is in the interest of the company and its shareholders, and consistent with current principles of corporate governance, that all directors of the company, whether or not they hold any executive or other office, should be subject to retirement by rotation. If passed, the Special Resolution will achieve this objective by removing the proviso to Article 85 which is quoted above.

In considering the proposal, shareholders are reminded that Article 86 contains the following additional provision regarding the retirement of directors by rotation:-

"The directors to retire by rotation shall include (so far as necessary to obtain the number required) any director who wishes to retire and not to offer himself for re-election. Any further directors so to retire shall be those of the other directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who become or were last re-elected directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring director shall be eligible for re-election."

Shareholders are also reminded that under Article 91 any director appointed to fill a casual vacancy or as an additional director holds office only until the next annual general meeting and will then be eligible for re-election. Directors appointed and retiring in this way are not taken into account in determining the number of directors who are to retire by rotation at the annual general meeting.

Payment of dividend as Foreign Income Dividend

In the preliminary announcement of the company's results on 4 December 1997 the board announced its decision to pay the final dividend as a Foreign Income Dividend ("FID"). Under current tax legislation and practice it is not possible to combine the payment of a FID with a scrip dividend and therefore on this occasion a scrip dividend alternative will not be offered to shareholders.

Reasons for paying a FID

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

In the light of changes announced by the Chancellor this year, the board has concluded that the payment of the 1997 final dividend in the form of a FID (on which the ACT would be recoverable by the company) would be in the best interests of the company and of shareholders taken as a whole. It will both give the company a cash flow benefit and, in the longer term, reduce its exposure to the risk that surplus ACT may not be recovered.

Effects on shareholders

As stated above, a FID cannot be combined with a scrip dividend and therefore all shareholders, including those with a scrip dividend mandate in place, will receive the 1997 final dividend in cash. Since no shareholder may receive a fraction of a share under the scrip dividend alternative scheme, a number of shareholders currently have fractional entitlements carried forward until that fractional entitlement is sufficient to enable them to acquire a share under the scheme. Since it is uncertain when the scrip dividend alternative will be offered to shareholders again, the board has determined that all fractional entitlements standing to the credit of shareholders will be paid to shareholders in cash.

The tax effects for different categories of shareholder of paying the 1997 final dividend as a FID in comparison with a conventional dividend payment are as follows:

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

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

Policy on future dividends

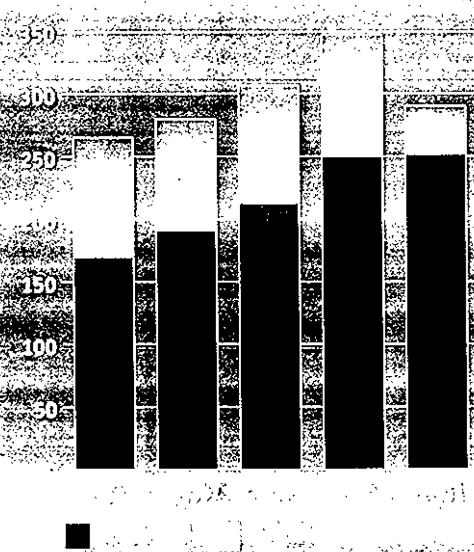
The board is not in a position now to determine the extent to which future dividends may be payable as FIDs. The board will review legislation in force at the time of the next dividend in order to ensure the most advantageous benefit to the company and shareholders as a whole.

CONTENTS

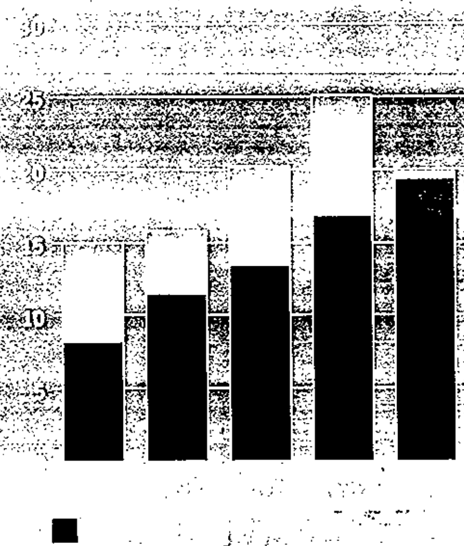
The front cover shows a vehicle in outline detailing examples of our wide range of automotive components – superimposed on a computer-generated model of a hydraulic engine mount. The technical products featured are crawler tracks, drilling stators and business machine components.

FINANCIAL HIGHLIGHTS

Turnover (£m)



Operating profit (£m)



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