Directors' report

Avon Rubber p.l.c
company number 32965

for the year ended 29 September 2001

1 The directors submit the one hundred and eleventh annual report and audited financial statements of the Company and Group for the year ended 29 September 2001.

Principal activities and business review

The principal activities of the Group are:

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

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

2 Results and dividend

The Group profit for the year before taxation and exceptional items amounts to £3,413,000 (2000: £12,385,000). The Group loss for the year after taxation and minority interests amounts to £8,171,000 (2000: £3,495,000 profit). An interim dividend of 3.5p per share (2000: 7.0p) was paid on 29 June 2001. The directors recommend a final dividend of 3.5p per share (2000: 17.2p) making a total of 7.0p per share for the year to 29 September 2001 (2000: 24.2p). Full details are set out in the profit and loss account on page 27. The total distribution of dividends for the year to 29 September 2001 is £1,961,000 (2000: £6,735,000).

3 Directors

The names of the directors as at 18 December 2001 are set out on page 16. None of the directors has a beneficial interest in any contract to which the parent company or any subsidiary was a party during the year. Beneficial interests of directors, their families and trusts in ordinary shares of the Company can be found on page 23.

Mr. N.A.P. Carson and Mr. L.J. Richards retire under Article 84 and, being eligible, offer themselves for re-election.

Mr. G.T.E. Priestley and Mr. S.J. Willcox retire by rotation and, being eligible, offer themselves for re-election.

Mr. L.J. Richards has a Service Contract with the Company's subsidiary, Avon Rubber & Plastics Inc., a company registered in the United States of America. This contract requires one years notice of termination, or two years in the event of the company being acquired by a third party.

Mr. S.J. Willcox has a Service Contract with the Company requiring two years notice of termination, subject to retirement at age 60.

4 Substantial shareholdings

At 30 November 2001, the following shareholders held 3% or more of the Company's issued ordinary share capital.

Schroder Investment Management Limited	8.37%
Deutsche Asset Management	5.98%
M&G Investment Management Limited	5.20%
Henderson Investors	3.95%
Jupiter Asset Management Limited	3.68%

5 Political and charitable contributions

No political contributions were made during the year. Contributions for charitable purposes amounted to £58,000 (2000: £65,000).

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 29 September 2001, the number of days' purchases outstanding at the end of the financial year for the Group was 48 days (2000: 46 days) based on the ratio of trade creditors at the end of the year to the amounts invoiced during the year by trade creditors. On the same basis the number of days' purchases outstanding for the parent company was 59 days (2000: 20 days).

Directors' report continued

for the year ended 29 September 2001

7 Disabled persons

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

8 Employee involvement

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

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

9 Research and development

The Group has continued to strengthen its technology base in order to meet the growing challenges from its world-wide customers. The Materials Development Centre in the UK and the Product Development Centre in the US now provide strong technical support to our global manufacturing operations and maintain close links with the Group's major suppliers and customers – often through joint development programmes. The Group's products increasingly exploit the competitive benefits of plastics, thermoplastic elastomers in addition to the new and well established rubber polymers. Work with universities continues in the areas of mixing, adhesion and surface engineering.

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 Share Capital

On 27 April 2001 the 500,000 7% cumulative preference shares of £1 each were repaid at 116.67p together with the dividend accrued from 1 January 2001 to the date of redemption.

12 Auditors

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

By order of the Board

C.L. Martin, Secretary
Bradford on Avon, Wiltshire
18 December 2001

Corporate governance

Statement of compliance with the Combined Code

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

Subject to the point made in the next paragraph, the Company has complied throughout the year with the provisions of the Combined Code. Additionally, the Board confirms that it is applying the procedures necessary to implement the guidance "Internal Control: Guidance for Directors on the Combined Code" ("the Turnbull Report").

On 8 February 2001, and as reported in the Chairman's Statement on page 3, our then Chairman Mr C.P. King CBE unexpectedly resigned for health reasons. The Board immediately commenced the process of seeking a new Non-Executive Director and Mr N.A.P. Carson was appointed to the Board on 15 May 2001. For the period from 8 February 2001 to 15 May 2001, the company was technically non-compliant with paragraph D.3.1 of the Combined Code, which provides that the Company should have an Audit Committee of at least three Non-Executive Directors. This was unavoidable in the circumstances.

1 The Board

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

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

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

On 8 February 2001, consequent upon Mr King's resignation, Mr T.C. Bonner CBE was appointed Chairman of the Board and was replaced as Deputy Chairman and Senior Independent Director by Mr G.T.E. Priestley. All directors, whether Executive or Non-Executive, are subject to re-election by shareholders at the first annual general meeting after their appointment and are obliged to retire and, if appropriate, seek re-election by the shareholders at least every three years. Additionally, the Non-Executive Directors are appointed by the Board for specified terms, and reappointment is not automatic.

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

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

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

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

Corporate governance continued

Statement of compliance with the Combined Code

2 Directors' remuneration

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

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

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

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

The Remuneration Committee has considered the conclusions of the Hampel Committee with regard to the notice period given to Executive Directors for termination of their service contracts. Currently, the notice period for directors appointed prior to the year under review stands at two years and for Mr. L.J. Richards, who was appointed in September 2001, stands at one year (or two years in the event of the company being acquired by a third party). The Committee believes that this continues to be appropriate and enables the Company to be competitive, attracting directors of the calibre necessary to run a diverse multi-national business. The Remuneration Committee strongly endorses the principle of mitigation of loss on early termination of a service contract and takes care to ensure that poor performance is not rewarded.

Executive Directors' remuneration comprises four elements: -

Salary

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

Bonus

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

In recent years, and as further linkage to the enhancement of shareholder value, 50% of any bonus paid has been used to buy Company shares as part of the Long-term Incentive Plan. It is planned, subject to shareholder approval, to replace the Long-term Incentive Plan with a new Performance Share Plan, details of which are contained in the Notice of the annual general meeting on page 58.

Bonus payments are not pensionable.

Pension and other benefits

Executive Directors are members of the Senior Executive Section of the Avon Rubber Retirement and Death Benefit Plan, a contributory defined benefit scheme based on length of service and earnings. The levels of contribution from the scheme members and the Company are assessed annually. For the year ended 29 September 2001 the contribution rates were 5.5% from the members throughout the year. Company contributions, excluding National Insurance rebates were 7.5% up to 31 December 2000 and 0.5% between 1 January 2001 and 29 September 2001. A funded unapproved retirement benefits scheme ("FURBS") has been in place for Mr. R.A. Hunt and Mr. T.K.P. Stead, who joined the Company after the introduction of the pensionable salary cap; during the year the Company ceased making contributions to this scheme and as an alternative Mr. R.A. Hunt and Mr. T.K.P. Stead are receiving an appropriate non-pensionable supplement designed to compensate for the effect of the salary cap. Executive Directors are provided with private health insurance for themselves and applicable members of their immediate families and are also able to participate in the Company's Sharesave Option Scheme; as to this latter scheme, please see the explanation paragraph contained in the Notice of Meeting on page 60.

Long-term Incentive Plan/Performance Share Plan

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

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

As indicated above, it is proposed to replace the Long-term Incentive Plan with a new Performance Share Plan.

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

Corporate governance continued

Statement of compliance with the Combined Code

3 Relations with shareholders

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

At the annual general meeting on 4 February 2002 the Board will be following the recommendations in the Combined Code regarding the constructive use of annual general meetings; in particular, the agenda will include a presentation by the Chief Executive on aspects of the Company's business.

4 Accountability and audit

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

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

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

Going concern

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

Statement of compliance with the Combined Code

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

At the 1996 annual general meeting shareholders approved the 1996 Scheme, a description of which was contained in the 1995 report and accounts. Briefly, the 1996 Scheme provides that Executive Directors will take a percentage of any annual bonus in the form of shares on the basis that three years later a number of matching shares (up to a maximum of three times the number of shares taken as part of any annual bonus) may be awarded, dependent on the Group's performance in terms of total shareholder return as compared with a comparator group of companies. In the year under review Executive Directors and other senior employees did not purchase any shares under the 1996 scheme, since no bonuses were paid in respect of the 1999/2000 financial year.

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

	Total grants outstanding	**Granted 2001**	Granted 2000	Granted 1999
S.J. Willcox	**16,758**	–	2,724	14,034
I.A.H. McPhie	**9,927**	–	–	9,927
S.J. Stone	**10,503**	–	1,413	9,090
R.A. Hunt	**9,111**	–	1,233	7,878
T.K.P. Stead	**1,149**	–	1,149	–
L.J. Richards	**327**	–	327	–
Other senior employees	**12,057**	–	2,439	9,618

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

The conditional awards of matching shares made in 1997 and 1998, the first two years of the scheme's operation, have now lapsed, following analysis of the Group's performance in terms of total shareholder return as compared with the comparator group.

In accordance with UITF 17 (revised 2000), the fair value of the shares at the date the conditional award was granted is charged to the profit and loss account over the performance period, subject to the proportion of matching shares that are expected to be eventually issued.

Pensions

All the Executive Directors are current members of the Group's Senior Executive Section of the Avon Rubber Retirement and Death Benefit Plan, with the exception of Mr. L.J. Richards whose pension contributions are paid through Avon Rubber & Plastics Inc., a company registered in the United States of America. Subject to Inland Revenue limits, members are eligible for a pension of up to two thirds of final pensionable salary upon retirement at the age of 60, provided that the minimum service requirement of 20 years has been met. Additionally, defined contribution schemes were in place for the benefit of Mr R.A. Hunt and Mr. T. K. P. Stead.

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

Directors' emoluments

	Basic salary & fees £'000	**Other* benefits £'000**	**Annual bonus £'000**	**Total emoluments excluding pensions 2001 £'000**	**Total emoluments excluding pensions** 2000 £'000	**Pension** contributions** 2001 £'000**	**Pension contributions** 2000 £'000	**Total emoluments including pensions 2001 £'000**	**Total emoluments including pensions** 2000 £'000
Executive									
S.J. Willcox (highest paid director)	218	20	–	238	232	–	–	238	232
R.A. Hunt	122	65	–	187	205	24	–	211	205
L.J. Richards (from 4.9.01)	10	1	–	11	–	–	–	11	–
T.K.P. Stead	123	42	–	165	134	8	6	173	140
S.J. Stone	143	16	–	159	155	–	–	159	155
Non-Executive									
C.P. King CBE (Chairman until 8.2.01)	19	–	–	19	45	–	–	19	45
T.C. Bonner CBE (Chairman from 8.2.01)	36	–	–	36	20	–	–	36	20
G.T.E. Priestley (Deputy Chairman from 8.2.01)	20	–	–	20	20	–	–	20	20
N.A.P. Carson (from 15.5.01)	8	–	–	8	–	–	–	8	–
Total 2001	699	144	–	843	–	32	–	875	–
Total 2000	695	116	–	–	811	–	6	–	817

Mr. L.J. Richards is paid for his services to the Group through Avon Rubber & Plastics Inc., a company registered in the United States of America.

* Other benefits include payments to Mr. R.A. Hunt and Mr. T.K.P. Stead to replace the FURBS scheme as explained on page 20.

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

No director waived emoluments in respect of the year ended 29 September 2001.

Corporate governance continued

Statement of compliance with the Combined Code

Executive Directors' pensions

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

	S.J. Willcox	S.J. Stone	T.K.P. Stead	R.A. Hunt
Accrued entitlement as at 29 September 2001	£119,847 p.a.	£79,480 p.a.	£9,619 p.a.	£23,139 p.a.
Increase in accrued entitlement over the period in excess of the increase awarded to deferred pensioners	£6,769 p.a.	£4,907 p.a.	£3,230 p.a.	£3,571 p.a.
Contributions paid by each director over the period	£11,990	£7,810	£5,148	£5,148
Increase in the transfer value over the year (net of the director's contributions)	£17,463	£13,433	£27,111	£34,054

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

The accrued lump sum under the defined benefit scheme for the highest paid director at 29 September 2001 was £66,100 (2000: £57,652).

Directors' interests

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

	At the beginning of the year	At the end of the year
C.P. King CBE	16,000	–
T.C. Bonner CBE	4,000	4,000
N.A.P. Carson	–	–
R.A. Hunt	5,223	5,223
G.T.E. Priestley	12,000	12,000
L.J. Richards	109	109
T.K.P. Stead	2,383	2,383
S.J. Stone	11,049	11,049
S.J. Willcox	28,418	28,418

Additionally, the Company operates a qualifying employee share ownership trust ("Quest") which is used to deliver shares to employees exercising their options under the Savings Related Share Option Scheme. By virtue of their participation, or potential participation, in that Scheme, Mr. S.J. Willcox, Mr. S.J. Stone, Mr. T.K.P. Stead and Mr. R.A. Hunt have an interest in the shares held by the Quest. At 29 September 2001 136,578 shares were held in the Quest (2000: 136,578 shares).

There were no movements in directors' shareholdings between the end of the financial year and 18 December 2001, except that on 3 October 2001, Mr. S.J. Willcox and Mr. T.K.P. Stead purchased 7,020 and 6,000 Shares respectively, taking their holdings to 35,438 and 8,383 respectively.

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

Executive share option scheme:

	Number of options at 1/10/00	Granted during the year	Exercised during the year	Number of options at 29/9/01	Exercise price (£)	Exercisable at any time up to
S.J. Willcox	24,000	–	–	24,000	5.81	Feb 2004
	60,000	–	–	60,000	5.10	Jun 2005
S.J. Stone	15,000	–	–	15,000	5.81	Feb 2004
	24,000	–	–	24,000	5.10	Jun 2005
R.A. Hunt	15,000	–	–	15,000	5.10	May 2005

Corporate governance continued

Statement of compliance with the Combined Code

Sharesave option schemes:

	Number of options at 1/10/00	Granted during the year	Lapsed during the year	Number of options at 29/09/01	Exercise price (£)	Exercisable during
S.J. Willcox	841	–	–	841	3.80	2003
	3,253	–	–	3,253	5.01	2005
S.J. Stone	1,125	–	1,125	–	–	–
	1,322	–	–	1,322	5.79	2002
	1,060	–	–	1,060	5.01	2003
R.A. Hunt	1,062	–	–	1,062	3.67	2002
	1,203	–	–	1,203	5.79	2002
	1,683	–	–	1,683	3.80	2003
	234	–	–	234	5.01	2003
T.K.P. Stead	3,052	–	3,052	–	–	–
	–	9,811	–	9,811	1.72	2006

No directors' options were exercised during the year.

As at 29 September 2001 other employees held options for 723,517 ordinary shares, exercisable between 2001 and 2008, at option prices ranging from £1.72 to £5.79.

All options are over ordinary shares of £1 each.

As at 29 September 2001, the market price of Avon Rubber p.l.c. shares was £0.93 (2000: £2.22). During the year the highest and lowest market prices were £2.275 and £0.85 respectively.

Avon Rubber p.l.c
company number 32965

Statement of directors' responsibilities

for the year ended 29 September 2001

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

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

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

By order of the Board
C.L. Martin, Secretary
Bradford on Avon, Wiltshire
18 December 2001

Avon Rubber p.l.c.
company number 32965

Independent auditors' report

for the year ended 29 September 2001

Independent auditors' report to the members of Avon Rubber p.l.c.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's statement, Chief Executive's review, the Finance review, the Corporate Governance statement, the Statement of directors' responsibilities and the Directors' report.

We review whether the Corporate Governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 29 September 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Bristol
18 December 2001

Avon Rubber p.l.c
company number 32965

Consolidated profit and loss account

for the year ended 29 September 2001

	Notes	2001 Before exceptional items £'000	2001 Exceptional items (notes 5 and 6) £'000	2001 Total £'000	2000 Before exceptional items £'000	2000 Exceptional items £'000	2000 Total £'000
Turnover	2						
Continuing operations		262,031	–	262,031	258,707	–	258,707
Discontinued operations		16,010	–	16,010	19,290	–	19,290
Total turnover		278,041	–	278,041	277,997	–	277,997
Cost of sales		(243,781)	(952)	(244,733)	(231,842)	(1,984)	(233,826)
Gross profit		34,260	(952)	33,308	46,155	(1,984)	44,171
Net operating expenses (including £617,000 (2000: £623,000) goodwill amortisation)	3	(25,645)	(2,604)	(28,249)	(30,891)	(4,688)	(35,579)
Operating profit							
Continuing operations		10,496	(3,556)	6,940	15,648	(6,672)	8,976
Discontinued operations		(1,881)	–	(1,881)	(384)	–	(384)
Group operating profit		8,615	(3,556)	5,059	15,264	(6,672)	8,592
Share of profits of joint venture and associate	4	119	–	119	161	–	161
Total operating profit including joint venture and associate	2	8,734	(3,556)	5,178	15,425	(6,672)	8,753
Profit on disposal of fixed assets		–	–	–	–	25	25
Loss on disposal of operations	6	–	(8,916)	(8,916)	–	–	-
(Loss)/profit on ordinary activities before interest		8,734	(12,472)	(3,738)	15,425	(6,647)	8,778
Interest receivable	7	2,516	–	2,516	2,871	–	2,871
Interest payable	7	(7,837)	–	(7,837)	(5,911)	–	(5,911)
(Loss)/profit on ordinary activities before taxation	8	3,413	(12,472)	(9,059)	12,385	(6,647)	5,738
Taxation	9	(1,266)	2,184	918	(4,360)	1,400	(2,960)
(Loss)/profit on ordinary activities after taxation		2,147	(10,288)	(8,141)	8,025	(5,247)	2,778
Minority interests		(30)	–	(30)	717	–	717
(Loss)/profit for the year		2,117	(10,288)	(8,171)	8,742	(5,247)	3,495
Dividends (including non-equity interests)	10	(1,961)	–	(1,961)	(6,735)	–	(6,735)
Loss for the year	28	156	(10,288)	(10,132)	2,007	(5,247)	(3,240)
(Loss)/earnings per ordinary share	11						
Basic				(29.4)p			12.4p
Before exceptional items		7.5p			31.3p		
Before goodwill amortisation and exceptional items		9.7p			33.5p		
Diluted				(29.4)p			12.4p

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

Consolidated statement of total recognised gains and losses

for the year ended 29 September 2001

	Note	2001 £'000	2000 £'000
(Loss)/profit for the year		**(8,171)**	3,495
Premium paid on redemption of preference shares	27	**(84)**	-
Net exchange differences on overseas investments	28	**1,143**	309
Total (losses) and gains for the year		**(7,112)**	3,804

Reconciliation of movements in shareholders' funds

for the year ended 29 September 2001

	2001 £'000	2000 £'000
Opening shareholders' funds	**87,963**	89,557
(Loss)/profit for the year	**(8,171)**	3,495
Dividends	**(1,961)**	(6,735)
Net exchange difference on overseas investments	**1,143**	309
Redemption of preference shares	**(584)**	-
Goodwill resurrected on disposal of operations	**3,215**	1,337
Closing shareholders' funds	**81,605**	87,963
Equity shareholders' funds	**81,605**	87,463
Non-equity shareholders' funds	**-**	500
	81,605	87,963

Avon Rubber p.l.c
company number 32965

Consolidated balance sheet

Avon Rubber p.l.c.
company number 32965

at 29 September 2001

	Note	£'000	2001 £'000	£'000	2000 £'000
Fixed assets					
Intangible assets	14		**13,553**		13,154
Tangible assets	15		**100,865**		112,687
Investments	17		**647**		1,051
			115,065		126,892
Current assets					
Stocks	20	**22,534**		26,836	
Debtors - Amounts falling due within one year	21	**47,246**		56,528	
Debtors - Amounts falling due after more than one year	21	**6,802**		8,146	
Cash at bank and in hand		**13,586**		7,585	
		90,168		99,095	
Creditors					
Amounts falling due within one year	22	**66,189**		71,782	
Net current assets			**23,979**		27,313
Total assets less current liabilities			**139,044**		154,205
Creditors					
Amounts falling due after more than one year	23	**51,029**		56,116	
Provisions for liabilities and charges	25	**4,689**		8,385	
			55,718		64,501
Net assets			**83,326**		89,704
Capital and reserves					
Share capital	27		**27,824**		28,324
Share premium account	28		**34,070**		34,070
Revaluation reserve	28		**2,578**		2,575
Capital redemption reserve	28		**500**		-
Profit and loss account	28		**16,633**		22,994
Shareholders' funds (including non-equity interests)			**81,605**		87,963
Minority interests (equity interests)			**1,721**		1,741
			83,326		89,704

These financial statements were approved by the board of directors on 18 December 2001 and were signed on its behalf by:

T.C. Bonner CBE
S.J. Willcox

Avon Rubber p.l.c
company number 32965

Parent company balance sheet

at 29 September 2001

	Note	£'000	2001 £'000	£'000	2000 £'000
Fixed assets					
Tangible assets	16		**27,903**		1,786
Investments	18		**82,585**		82,585
			110,488		84,371
Current assets					
Debtors	21	**9,361**		10,591	
Cash at bank and in hand		**20,896**		47,219	
		30,257		57,810	
Creditors					
Amounts falling due within one year	22	**25,698**		36,639	
Net current assets			**4,559**		21,171
Net assets			**115,047**		105,542
Capital and reserves					
Share capital	27		**27,824**		28,324
Share premium account	29		**34,070**		34,070
Merger reserve	29		**16,439**		16,439
Revaluation reserve	29		**541**		561
Capital redemption reserve	29		**500**		-
Profit and loss account	29		**35,673**		26,148
Shareholders' funds (including non-equity interests)			**115,047**		105,542

These financial statements were approved by the board of directors on 18 December 2001 and were signed on its behalf by:

T.C. Bonner CBE
S.J. Willcox

Consolidated cash flow statement

Avon Rubber p.l.c.
company number 32965

for the year ended 29 September 2001

	Note	£'000	2001 £'000	£'000	2000 £'000
Net cash inflow from operating activities	30		**28,214**		19,711
Returns on investments and servicing of finance					
Interest received		**3,020**		2,792	
Interest paid		**(7,907)**		(6,945)	
Interest paid on finance leases		**(53)**		(62)	
Associated company dividends		**338**		-	
Preference dividends paid		**(23)**		(35)	
Dividends paid to minority shareholders		**(57)**		-	
			(4,682)		(4,250)
Taxation					
Corporation tax received/(paid)			**1,281**		(4,112)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(6,279)**		(22,912)	
Sale of tangible fixed assets		**109**		951	
Capitalised development expenditure		**(990)**		(1,391)	
Purchase of fixed asset investments		**(98)**		-	
			(7,258)		(23,352)
Acquisitions and disposals					
Sale of operations	6	**2,002**		2,465	
Cash transferred		**-**		(66)	
			2,002		2,399
Equity dividends paid			**(5,731)**		(6,700)
Net cash inflow/(outflow) before financing			**13,826**		(16,304)
Financing					
Redemption of preference shares		**(584)**		-	
Repayment of loans		**(24,563)**		(5,395)	
New loans		**21,283**		4,334	
Principal payments under finance leases		**(465)**		(744)	
			(4,329)		(1,805)
Increase/(decrease) in cash in the period	31		**9,497**		(18,109)

Accounting policies

for the year ended 29 September 2001

Accounting policies

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

New financial reporting standards

During the year Financial Reporting Standards (FRS) 17 (Retirement Benefits) and 18 (Accounting Policies) became effective. These standards have been reflected in these financial statements to the extent considered appropriate. In accordance with the transitional arrangements contained in FRS 17, disclosure in respect of the closing balance sheet only (without comparatives for the previous period) has been made. The adoption of FRS 18 has not resulted in the change of any accounting policy.

Accounting period

The Company's accounting period ends on the Saturday nearest to 30 September each year. The period ended 29 September 2001 consisted of 52 weeks (2000: 52 weeks).

Consolidation

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

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

Deferred taxation

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

Derivative financial instruments

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

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

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 gains 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 29 September 2001

Fixed asset investments

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

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

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

Interest payable

Interest is capitalised gross during the period of construction where it relates either to the financing of major projects with long periods of development or to dedicated financing of other projects. All other interest is charged against income.

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.

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.

Research and development

All research and development costs are written off in the year in which they are incurred, with the exception of certain major product development projects where reasonable certainty exists as regards technical and commercial viability. Such expenditure is capitalised and amortised over the expected product life, commencing in the year when sales of the product are made for the first time.

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.

Tangible fixed assets

Tangible fixed assets are stated at cost with the exception of previously revalued tangible fixed assets, which are now held at their book value at the date of implementation of FRS 15 (Tangible Fixed Assets), as permitted under the transitional rules of that standard, less amounts provided for depreciation and any provision for impairment. 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.

Turnover

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

Notes to the financial statements

for the year ended 29 September 2001

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 £11,838,000 (2000: £2,900,000).

2 Segmental information

	2001 £'000	2000 £'000
(a) External sales by destination:		
United Kingdom	**46,207**	46,621
Other European	**95,506**	93,167
North America	**132,443**	133,933
Rest of World	**3,885**	4,276
	278,041	277,997

	2001 External sales £'000	2001 Total operating profit/(loss) £'000	2001 Operating net assets £'000	2000 External sales £'000	2000 Total operating profit/(loss) £'000	2000 Operating net assets £'000
(b) By origin:						
Before exceptional operating items						
United Kingdom	**77,253**	**(769)**	**60,416**	84,054	(2,656)	70,880
Other European	**70,508**	**3,610**	**38,315**	59,591	6,023	33,443
North America – Continuing operations	**114,270**	**7,774**	**40,211**	115,062	12,442	51,757
Discontinued operations	**16,010**	**(1,881)**	–	19,290	(384)	1,368
	278,041	**8,734**	**138,942**	277,997	15,425	157,448
Exceptional operating items (note 5)						
United Kingdom	–	**(150)**	–	–	(5,902)	–
Other European	–	**(802)**	–	–	(770)	-
North America – Continuing operations	–	**(2,604)**	–	–	–	–
	–	**(3,556)**	–	–	(6,672)	–
After exceptional operating items						
United Kingdom	**77,253**	**(919)**	**60,416**	84,054	(8,558)	70,880
Other European	**70,508**	**2,808**	**38,315**	59,591	5,253	33,443
North America – Continuing operations	**114,270**	**5,170**	**40,211**	115,062	12,442	51,757
Discontinued operations	**16,010**	**(1,881)**	–	19,290	(384)	1,368
	278,041	**5,178**	**138,942**	277,997	8,753	157,448

Inter segmental sales are not material.

Notes to the financial statements continued

for the year ended 29 September 2001

2 Segmental information (continued)

	2001			2000		
	External sales £'000	Total operating profit/(loss) £'000	Operating net assets £'000	External sales £'000	Total operating profit/(loss) £'000	Operating net assets £'000
(c) By business sector:						
Before exceptional operating items						
Automotive components						
Continuing operations	**195,017**	**6,932**	**84,540**	196,771	10,942	98,841
Discontinued operations	**11,350**	**(769)**	**–**	12,708	663	(932)
	206,367	**6,163**	**84,540**	209,479	11,605	97,909
Technical products						
Continuing operations	**67,014**	**3,683**	**54,402**	61,936	4,867	57,239
Discontinued operations	**4,660**	**(1,112)**	**–**	6,582	(1,047)	2,300
	71,674	**2,571**	**54,402**	68,518	3,820	59,539
	278,041	**8,734**	**138,942**	277,997	15,425	157,448
Exceptional operating items						
Automotive components						
Continuing operations	**–**	**(1,355)**	**–**	–	(4,432)	–
Technical products						
Continuing operations	**–**	**(2,201)**	**–**	–	(2,240)	–
	–	**(3,556)**	**–**	–	(6,672)	–
Total						
Automotive components						
Continuing operations	**195,017**	**5,577**	**84,540**	196,771	6,510	98,841
Discontinued operations	**11,350**	**(769)**	**–**	12,708	663	(932)
	206,367	**4,808**	**84,540**	209,479	7,173	97,909
Technical products						
Continuing operations	**67,014**	**1,482**	**54,402**	61,936	2,627	57,239
Discontinued operations	**4,660**	**(1,112)**	**–**	6,582	(1,047)	2,300
	71,674	**370**	**54,402**	68,518	1,580	59,539
	278,041	**5,178**	**138,942**	277,997	8,753	157,448

Inter segmental sales are not material.

Notes to the financial statements continued

for the year ended 29 September 2001

2 Segmental information (continued)

	2001 £'000	2000 £'000
(d) Reconciliation of operating net asset analysis		
Consolidated balance sheet	**83,326**	89,704
Borrowings	**66,553**	72,530
Interest bearing bank deposits	**(10,937)**	(4,786)
Operating net assets	**138,942**	157,448

	2001		2000	
(e) Directors and employees	**Year-end**	**Average**	Year-end	Average
The number of employees (including Executive Directors) during the year was:				
Automotive components	**3,615**	**4,051**	4,317	4,319
Technical products	**972**	**1,070**	1,117	1,215
Total	**4,587**	**5,121**	5,434	5,534

3 Cost of sales and other operating income and expenses

2001	Before exceptional items £'000	Exceptional items (see note 5) £'000	Continuing operations Total £'000	Discontinued operations Total £'000	Total £'000
Turnover	**262,031**	**–**	**262,031**	**16,010**	**278,041**
Cost of sales	**(227,198)**	**(952)**	**(228,150)**	**(16,583)**	**(244,733)**
Gross profit/(loss)	**34,833**	**(952)**	**33,881**	**(573)**	**33,308**
Distribution costs	**(7,115)**	**–**	**(7,115)**	**(150)**	**(7,265)**
Administrative expenses (including goodwill amortisation of £617,000)	**(17,680)**	**(2,604)**	**(20,284)**	**(1,158)**	**(21,442)**
Other operating income	**458**	**–**	**458**	**–**	**458**
Net operating expenses	**(24,337)**	**(2,604)**	**(26,941)**	**(1,308)**	**(28,249)**
Share of profits of joint venture and associate	**119**	**–**	**119**	**–**	**119**
Total operating profit/(loss)	**10,615**	**(3,556)**	**7,059**	**(1,881)**	**5,178**

2000	Before exceptional items £'000	Exceptional items £'000	Continuing operations Total £'000	Discontinued operations Total £'000	Total £'000
Turnover	258,707	–	258,707	19,290	277,997
Cost of sales	(212,416)	(1,984)	(214,400)	(19,426)	(233,826)
Gross profit/(loss)	46,291	(1,984)	44,307	(136)	44,171
Distribution costs	(6,827)	(694)	(7,521)	(256)	(7,777)
Administrative expenses (including goodwill amortisation of £623,000)	(24,527)	(3,994)	(28,521)	(671)	(29,192)
Other operating income	711	–	711	679	1,390
Net operating expenses	(30,643)	(4,688)	(35,331)	(248)	(35,579)
Share of profits of joint venture and associate	161	–	161	–	161
Total operating profit/(loss)	15,809	(6,672)	9,137	(384)	8,753

Notes to the financial statements continued

for the year ended 29 September 2001

4 Joint venture and associate

	2001 £'000	2000 £'000
Share of operating profit in joint venture	**8**	21
Share of operating profit in associate	**111**	140
	119	161

The Group's share of the turnover of the joint venture was £356,000 (2000: £213,000).

	Share Capital	Held by the Group	Accounting Date	Basis of Consolidation
Joint Venture:				
Gold Seal-Avon Polymers PVT India	5,698,780 shares of 10 rupees each	50%	31 March	Audited accounts to 31 March 2001 Unaudited accounts to 29 September 2001
Associate:				
Ames-Avon Industries USA	2,000 shares of nil par value	49%	31 December	Audited accounts to 31 December 2000 Unaudited accounts to 29 September 2001

5 Exceptional operating items

	2001 £'000
Cost of sales	
Relocating manufacturing from the United Kingdom to Continental Europe	**952**
Operating costs	
Reduction of work force in North America	**190**
Legal and professional fees in respect of debt restructuring	**213**
Impairment of tangible fixed assets	**2,201**
	2,604
	3,556

6 Loss on disposal of operations

	2001 £'000
Nylaflow industrial hose business	**1,175**
Avon Injected Rubber & Plastics Inc.	**4,526**
	5,701
Goodwill previously written off directly to reserves in respect of Nylaflow	**3,215**
	8,916

Of the losses, £7,449,000 (of which £3,215,000 was in respect of goodwill) was shown as an impairment charge in the interim statement in anticipation of expected disposals and charged against operating profit. However, given the completion of these disposals in the second half of the year, this has been reclassified as part of the loss on disposal.

The business and assets of Nylaflow (a division of Cadillac Rubber & Plastics Inc.) were sold on 14 September 2001 for a net consideration of £341,000.

The loss attributable to this operation before exceptional items for 2001 was £1,112,000 (2000: £1,047,000).

On 28 September 2001, the business and assets of Avon Injected Rubber & Plastics Inc. were sold for a net consideration of £2,688,000. £1,661,000 was paid in cash on completion with the balance payable by 1 April 2002. The loss attributable to this operation before exceptional items for 2001 was £769,000 (2000: £663,000 profit).

The losses are before attributable tax credits of £410,000 in respect of Nylaflow and £1,371,000 for Avon Injected Rubber & Plastics Inc.

Notes to the financial statements continued

for the year ended 29 September 2001

7 Net interest payable and similar charges

	2001 £'000	2000 £'000
Bank loans and overdrafts	**(4,154)**	(4,107)
US dollar private placement	**(3,117)**	(2,530)
Other loans	**(439)**	(434)
Finance leases	**(47)**	(63)
	(7,757)	(7,134)
Share of interest cost in joint venture	**(80)**	(71)
Less interest capitalised	**–**	1,294
Total interest payable	**(7,837)**	(5,911)
Interest receivable	**2,516**	2,871
	(5,321)	(3,040)

8 (Loss)/profit on ordinary activities before taxation

	2001 £'000	2000 £'000
(Loss)/profit on ordinary activities before taxation is stated after crediting:		
Rent receivable	**49**	54
Gain on foreign exchange	**311**	76
and after charging:		
Depreciation on tangible fixed assets:		
owned assets	**11,445**	11,268
leased assets	**500**	643
Impairment of tangible fixed assets	**2,201**	-
Amortisation of goodwill	**617**	623
Amortisation of deferred development costs	**398**	-
Auditors' remuneration for:		
audit (Company £81,000; 2000: £72,000)	**354**	324
other services to UK members of the Group including taxation	**62**	89
Research and development	**4,267**	3,793
Operating leases:		
plant and machinery	**2,350**	2,015
other assets	**1,245**	1,464

9 Taxation

	2001 £'000	2000 £'000
The taxation credit/(charge), based on the results for the year, comprises:		
Tax charge on operating activities:		
United Kingdom corporation tax at 30% (2000: 30%)	**87**	375
Overseas' taxes	**(21)**	(3,719)
Associated company	**(42)**	(52)
	24	(3,396)
Deferred taxation	**894**	436
	918	(2,960)

The relatively low corporation tax credit largely arises as a result of unrecognised UK tax losses carried forward. Lower taxation charges on overseas' profits are largely due to impairment charges and the write off of goodwill.

Notes to the financial statements continued

for the year ended 29 September 2001

9 Taxation (continued)

An analysis of provided and unprovided deferred tax assets/(liabilities) at 30% (2000: 30%) is shown below:

	Amount provided		Amount unprovided	
	2001 £'000	2000 £'000	**2001 £'000**	2000 £'000
Capital allowances	**(1,284)**	(2,092)	**(6,095)**	(6,119)
Pension deferral	–	–	**280**	342
Post retirement healthcare	**1,198**	1,124	–	–
Other timing differences	**86**	74	**3,236**	2,208
Losses	–	–	**5,126**	2,060
Taxation liability	–	(894)	**2,547**	(1,509)

In addition to the above there are losses of £112,000 (2000: £667,000) (in terms of tax) available for carry forward, which can be offset against future profits from the same activity.

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

10 Dividends

	2001 £'000	2000 £'000
Dividends on equity shares:		
Ordinary – Interim paid of 3.5p per share (2000: 7.0p per share)	**969**	1,938
Ordinary – Final proposed of 3.5p per share (2000: 17.2p per share)	**969**	4,762
	1,938	6,700
Dividends on non-equity shares:		
Preference 7% paid (2000:7%)	**23**	35
	1,961	6,735

11 (Loss)/earnings per share

Basic loss per share amounts to 29.4p (2000: Earnings per share 12.4p) and is based on loss after taxation, and deduction of minority interests, and non-equity dividends, of £8,194,000 (2000: £3,460,000 profit) and 27,824,000 ordinary shares (2000: 27,824,000) being the weighted average of the shares in issue during the year.

Earnings per share before exceptional items amounts to 7.5p (2000: 31.3p) and is based on profit after taxation, and deduction of minority interests, and non-equity dividends, of £2,094,000 (2000: £8,707,000).

Earnings per share before goodwill amortisation and exceptional items amounts to 9.7p (2000: 33.5p) and is based on profit after taxation, and deduction of minority interests, and non-equity dividends of £2,711,000 (2000: £9,330,000).

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

11 (Loss)/earnings per share (continued)

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

	2001 £'000	2000 £'000
Basic (loss)/earnings per share	**(29.4)p**	12.4p
Adjustment for exceptional items	**36.9p**	18.9p
Earnings per share before exceptional items	**7.5p**	31.3p
Adjustment for goodwill amortisation	**2.2p**	2.2p
Earnings per share before goodwill amortisation and exceptional items	**9.7p**	33.5p

12 Pensions and other retirement benefits

The Group has continued to account for pensions in accordance with SSAP24 and the disclosures given below are those required by that standard. In addition, the Group has set out the disclosures required under the transitional arrangements for the implementation of FRS17 (Retirement Benefits).

a) Pensions

UK

The Group operates a contributory defined benefits plan to provide pension and death benefits for the employees of Avon Rubber p.l.c. and its Group undertakings in the UK. 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 1 April 2000 when the market value of the plan's assets was £239.8 million. The actuarial value of those assets represented 112% of the value of the benefits which had accrued to members, after allowing for future increases in salaries.

The pension cost for the year ended 29 September 2001 is based on the actuarial valuation as at 1 April 2000. The principal actuarial assumptions used are that the assets are valued at their market value at the valuation date, liabilities are valued by discounting projected future benefit payments at a rate 1% higher than the yield on fixed interest gilts at the valuation date, that inflation would be 3.0% (2000: 4.5%), pensionable salaries would increase by 4.0% (2000: 6.0%) and that pensions would increase by 3.0% (2000: 4.5%).

The pension cost to the Group in the year ended 29 September 2001 in respect of UK employees was £333,000 (2000: £629,000). At 29 September 2001, the pension prepayment held in the Group balance sheet is £4,798,000 (2000: £4,596,000).

Following the rationalisation and reorganisation of activities in the United Kingdom, a surplus of £720,000 arose as a result of the reduction in workforce. The benefits of this surplus have been recognised in the profit and loss account as the Group benefited from reduced pension contributions.

A further full actuarial valuation for FRS 17 purposes was carried out by an independent actuary at 29 September 2001 using the projected unit method.

The financial assumptions used to calculate scheme liabilities under FRS 17 are:

Valuation method	Projected Unit
Discount rate	6.25%
Inflation rate	2.5%
Increases to pensions in payment and deferred	2.5%
Salary increases	3.5%

12 Pensions and other retirement benefits (continued)

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

	Long-term rate of return expected at 29 September 2001	Value at 29 September 2001 £'000
Equities	**8%**	**133,962**
Bonds	**5%**	**62,711**
Other	**5%**	**9,808**
Total market value of assets	**7%**	**206,481**
Present value of scheme liabilities		**(198,017)**
Surplus in scheme		**8,464**
Related deferred tax liability		**(2,539)**
Net pension asset		**5,925**
Net Assets		
Net assets excluding SSAP 24 pension asset		**78,528**
Pension asset		**5,925**
Net assets including pension asset		**84,453**
Reserves		
Profit and loss reserve excluding SSAP 24 pension asset		**11,835**
Pension asset		**5,925**
Profit and loss reserve		**17,760**

Employer contributions to the plan were 7.5% of salaries in respect of the period to 31 December 2000, reducing to 0.5% thereafter.

Overseas

For employees overseas, pension arrangements are principally defined contribution plans. The cost to the Group in the year ended 29 September 2001 in respect of overseas' employees was £2,142,000 (2000: £2,097,000).

The Group's German subsidiary operates a fully re-insured defined benefit plan. The schemes assets at 29 September 2001 were £579,000 and the accrued liabilities £579,000.

In addition, a one off payment is made to retiring employees in the Group's French operations. The accrued liability based on earnings and length of service at 29 September 2001 amounts to £697,000.

b) Other post retirement benefits

Cadillac Rubber & 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 29 September 2001 is £268,000 (2000: £202,000), and the accrued liability of £3,423,000 (2000: £3,212,000) is included in provisions for liabilities and charges.

The liabilities of this unfunded benefit scheme were valued by an independent actuary at 1 October 2000, based on the following principal assumptions:

Discount rate	7.75%
Healthcare cost trend rate	5.50%

Notes to the financial statements continued

for the year ended 29 September 2001

13 Directors and employees

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

	2001 £'000	2000 £'000
Staff costs (including directors) during the year were:		
Wages and salaries	**79,223**	87,106
Social security costs	**9,104**	9,427
Other pension costs	**2,475**	3,117
	90,802	99,650

14 Intangible fixed assets – Group

	Cost £'000	Amortisation £'000	Net book value £'000
Goodwill			
At 1 October 2000	11,960	(747)	11,213
Amortisation	-	(617)	(617)
Exchange differences	457	(33)	424
At 29 September 2001	**12,417**	**(1,397)**	**11,020**
Development expenditure			
At 1 October 2000	1,941	-	1,941
Incurred during the year	990	(398)	592
At 29 September 2001	**2,931**	**(398)**	**2,533**
At 29 September 2001	**15,348**	**(1,795)**	**13,553**
At 30 September 2000	13,901	(747)	13,154

The goodwill arising on acquisitions since October 1998 is being amortised on a straight line basis over 20 years.

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

The cumulative goodwill resulting from acquisitions, which has been written off to reserves at 29 September 2001, is £74,652,000 (2000: £77,867,000).

The development expenditure is being amortised on a straight line basis over 5 years.

Notes to the financial statements continued

for the year ended 29 September 2001

15 Tangible fixed assets – Group

	Freeholds £'000	Long leasehold £'000	Short leasehold £'000	Plant and machinery £'000	Total £'000
Cost or valuation:					
At 1 October 2000	46,977	1,354	140	140,787	189,258
Exchange differences	426	2	–	1,923	2,351
Reclassifications	(51)	–	–	51	–
Additions at cost	967	–	–	4,797	5,764
Disposals	(57)	–	–	(2,780)	(2,837)
Disposal of operations	(840)	(82)	–	(7,905)	(8,827)
At 29 September 2001	**47,422**	**1,274**	**140**	**136,873**	**185,709**
At Cost	37,645	474	140	136,873	175,132
At Valuation	9,777	800	–	–	10,577
	47,422	1,274	140	136,873	185,709
Depreciation:					
At 1 October 2000	2,706	201	94	73,570	76,571
Exchange differences	87	–	–	833	920
Charge for the year	1,122	59	5	10,759	11,945
Impairment	–	–	–	2,201	2,201
On disposals	(13)	–	–	(2,770)	(2,783)
Disposal of operations	(249)	(45)	–	(3,716)	(4,010)
At 29 September 2001	**3,653**	**215**	**99**	**80,877**	**84,844**
Net book value at 29 September 2001	**43,769**	**1,059**	**41**	**55,996**	**100,865**
Net book value at 30 September 2000	44,271	1,153	46	67,217	112,687
Net book value includes the following leased assets:					
At 29 September 2001	–	**1,059**	**41**	**1,102**	**2,192**
At 30 September 2000	–	1,153	46	1,537	2,736

The accumulated cost of freeholds includes £1,873,000 (2000: £1,873,000) in respect of capitalised interest, the net book value of which is £1,811,000 (2000: £1,848,000).

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	49,174	801	140
Depreciation	7,267	297	99
Net book value at 29 September 2001	**41,907**	**504**	**41**
Net book value at 30 September 2000	42,480	586	46

Notes to the financial statements continued

for the year ended 29 September 2001

16 Tangible fixed assets – Parent

	Freeholds £'000	Long leasehold £'000	Plant and machinery £'000	Total £'000
Cost or valuation:				
At 1 October 2000	364	800	2,536	3,700
Transfers from Group companies	26,664	–	24	26,688
Additions at cost	455	–	53	508
Disposals	(15)	–	(728)	(743)
At 29 September 2001	**27,468**	**800**	**1,885**	**30,153**
At Cost	27,119	–	1,885	29,004
At Valuation	349	800	–	1,149
	27,468	**800**	**1,885**	**30,153**
Depreciation:				
At 1 October 2000	210	96	1,608	1,914
Transfers from Group companies	236	–	22	258
Charge for the year	544	24	248	816
On disposals	(12)	–	(726)	(738)
At 29 September 2001	**978**	**120**	**1,152**	**2,250**
Net book value at 29 September 2001	**26,490**	**680**	**733**	**27,903**
Net book value at 30 September 2000	154	704	928	1,786
Net book value includes the following leased assets:				
At 29 September 2001	–	**680**	–	**680**
At 30 September 2000	–	704	–	704

The accumulated cost of freeholds includes £1,873,000 (2000: £1,873,000) in respect of capitalised interest, the net book value of which is £1,811,000 (2000: £1,848,000).

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

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

	Freeholds £'000	Long leasehold £'000
Cost	27,423	327
Depreciation	824	202
Net book value at 29 September 2001	**26,599**	**125**
Net book value at 30 September 2000	260	137

17 Fixed assets investments- Group

	2001 £'000	2000 £'000
Investment in joint venture:		
shares of joint assets	**755**	798
shares of joint liabilities	**(754)**	(828)
Investment in associate	**476**	743
Other investments	**170**	338
	647	1,051

	Joint venture £'000	Associated company £'000	Other investments other than loans £'000	Total £'000
Unlisted shares at cost, less amount written off:				
At 1 October 2000	384	183	338	905
Addition: Gold Seal - Avon Polymers PVT	98	-	-	98
Writedown of investment in Longbore Inc.	-	-	(170)	(170)
Exchange differences	-	1	2	3
At 29 September 2001	**482**	**184**	**170**	**836**
Group share of profits less losses:				
At 1 October 2000	(414)	560	-	146
Exchange differences	5	1	-	6
Dividend received	-	(338)	-	(338)
(Losses)/profit for the year	(72)	69	-	(3)
At 29 September 2001	**(481)**	**292**	**-**	**(189)**
Net book value at 29 September 2001	**1**	**476**	**170**	**647**
Net book value at 30 September 2000	(30)	743	338	1,051

18 Fixed assets investments – Parent

	Unlisted shares at cost less amounts written off £'000
Net book value at 29 September 2001 and 30 September 2000	**82,585**

A list of Group undertakings appears on page 56.

Notes to the financial statements continued

for the year ended 29 September 2001

19 Other financial commitments

	Group		Parent	
	2001 £'000	2000 £'000	**2001 £'000**	2000 £'000
Capital expenditure committed	**319**	982	**–**	–

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

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

	2001		2000	
	Land and buildings £'000	**Other assets £'000**	Land and buildings £'000	Other assets £'000
For leases expiring				
Within 1 year	**44**	**98**	226	107
In 2–5 years	**764**	**225**	327	126
Over 5 years	**175**	**1**	479	-
	983	**324**	1,032	233

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

The parent company has annual commitments for non-cancellable operating leases on land and buildings expiring in over 5 years of £110,000 (2000: £68,000).

20 Stocks

	Group	
	2001 £'000	2000 £'000
Raw materials	**7,512**	8,041
Work in progress	**5,872**	7,102
Finished goods	**9,150**	11,693
	22,534	26,836

Notes to the financial statements continued

for the year ended 29 September 2001

21 Debtors

	Group		Parent	
	2001	2000	**2001**	2000
	£'000	£'000	**£'000**	£'000
Amounts falling due within one year:				
Trade debtors	**39,267**	46,539	**12**	20
Group undertakings	**–**	–	**8,065**	7,927
Undertakings in which the Group has a participating interest	**191**	281	**146**	175
Advance corporation tax recoverable	**111**	1,938	**22**	–
Corporation tax	**333**	–	**–**	1,571
Other debtors	**6,238**	7,113	**1,095**	543
Prepayments	**1,106**	657	**21**	18
	47,246	56,528	**9,361**	10,254
Amounts falling due after more than one year:				
Deferred tax	**1,198**	1,124	**–**	–
Other debtors	**806**	2,426	**–**	–
Pension fund prepayment	**4,798**	4,596	**–**	337
	6,802	8,146	**–**	337
	54,048	64,674	**9,361**	10,591

22 Creditors – amounts falling due within one year

	Group		Parent	
	2001	2000	**2001**	2000
	£'000	£'000	**£'000**	£'000
Bank loans (secured £26,000; 2000: £117,000)	**8,882**	1,696	**–**	3,910
US dollar private placement	**2,886**	5,727	**–**	–
Bank overdrafts	**6,613**	10,109	**–**	5,000
Finance leases	**294**	555	**–**	–
Total borrowings falling due within 1 year	**18,675**	18,087	**–**	8,910
Trade creditors	**25,835**	25,649	**784**	204
Group undertakings	**–**	–	**20,527**	21,351
Bills of exchange	**2,308**	2,188	**–**	–
Corporation tax	**490**	2,091	**2,024**	808
Other taxation and social security	**3,477**	3,194	**202**	147
Other creditors	**7,199**	5,885	**846**	34
Accruals	**7,236**	9,926	**346**	423
Proposed dividend on ordinary shares	**969**	4,762	**969**	4,762
	66,189	71,782	**25,698**	36,639

Notes to the financial statements continued

for the year ended 29 September 2001

23 Creditors – amounts falling due after more than one year

	Group		Parent	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Bank loans (secured nil; 2000: £25,000)	**30,493**	14,075	–	–
US dollar private placement	**17,314**	40,097	–	–
Finance leases up to 5 years	**71**	271	–	–
Total borrowings falling due after more than one year	**47,878**	54,443	–	–
Other creditors	**1,539**	1,673	–	–
Corporation tax	**1,612**	–	–	–
	51,029	56,116	–	–

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

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

The US dollar denominated private placement loan of $30 million (2000: $60 million) is stated net of unamortised issue costs of £274,000 (2000: £485,000)

Included within bank loans are amounts payable after more than five years (see note 24).

24 Financial instruments

Treasury Policy

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

Short term debtors and creditors

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

Interest rate risk of financial assets

	2001			2000		
Currency	**Cash at bank and in hand £'000**	**Investments £'000**	**Total £'000**	Cash at bank and in hand £'000	Investments £'000	Total £'000
Sterling	**339**	–	**339**	213	–	213
US dollars	**6,774**	**170**	**6,944**	4,074	338	4,412
EU currencies (other than sterling)	**5,496**	–	**5,496**	2,669	–	2,669
Other currencies	**977**	–	**977**	629	–	629
	13,586	**170**	**13,756**	7,585	338	7,923

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

The US dollar investment relates to the net book value of a 10% equity holding in Longbore Inc. of $250,000 (2000: $500,000).

Notes to the financial statements continued

for the year ended 29 September 2001

24 Financial instruments (continued)

Interest rate risk of financial liabilities

Currency	2001 Floating rate financial liabilities £'000	2001 Fixed rate financial liabilities £'000	2001 Total £'000	2000 Floating rate financial liabilities £'000	2000 Fixed rate financial liabilities £'000	2000 Total £'000
Sterling						
Financial liabilities	**2,929**	**365**	**3,294**	9,682	697	10,379
Preference shares	–	–	–	–	500	500
US dollars	**20,215**	**20,200**	**40,415**	143	40,097	40,240
EU currencies (other than sterling)	**21,283**	–	**21,283**	21,094	129	21,223
Other currencies	**1,561**	–	**1,561**	688	–	688
	45,988	**20,565**	**66,553**	31,607	41,423	73,030

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

Fixed rate financial liabilities comprise finance leases and a dollar denominated loan of $30 million which provides a hedge against the Group's investment in dollar denominated net assets.

Fixed rate financial liabilities

Currency	2001 Weighted average interest rate %	2001 Weighted average period for which rate is fixed Years	2000 Weighted average interest rate %	2000 Weighted average period for which rate is fixed Years
Sterling				
Financial liabilities	**6.9**	**0.8**	7.1	1.7
Preference shares	–	–	7.0	–
US dollars	**8.5**	**4.3**	6.7	7.9
EU currencies (other than sterling)	–	–	5.3	0.2

Maturity of financial liabilities

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

	2001 Bank overdrafts and loans £'000	2001 Finance leases £'000	2001 Preference shares £'000	2001 Total £'000	2000 Bank overdrafts and loans £'000	2000 Finance leases £'000	2000 Preference shares £'000	2000 Total £'000
In 1 year or less, or on demand	**18,381**	**294**	–	**18,675**	17,532	555	–	18,087
Between 1 and 2 years	**11,082**	**30**	–	**11,112**	8,605	239	–	8,844
Between 2 and 5 years	**31,622**	**41**	–	**31,663**	27,994	32	–	28,026
Over 5 years	**5,103**	–	–	**5,103**	17,573	–	500	18,073
	66,188	**365**	–	**66,553**	71,704	826	500	73,030

Bank overdrafts and loans include the US dollar private placement.

24 Financial instruments (continued)

Borrowing facilities

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

	2001			2000
	Floating rate £'000	Fixed rate £'000	Total £'000	Total £'000
Expiring within 1 year	**31,473**	**–**	**31,473**	11,558
Between 1 and 2 years	**330**	**–**	**330**	22,101
Over 2 years	**1,678**	**–**	**1,678**	2,013
Total undrawn committed borrowing facilities	**33,481**	**–**	**33,481**	35,672
Bank loans and overdrafts utilised	**45,988**	**20,200**	**66,188**	71,704
Total Group facilities	**79,469**	**20,200**	**99,669**	107,376

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

Fair values of financial assets and liabilities

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

	2001		2000	
	Book value £'000	**Fair value £'000**	Book value £'000	Fair value £'000
Primary financial instruments held or issued to finance the Group's operations:				
Bank loans and overdrafts under 1 year	**18,381**	**18,381**	17,532	17,532
US dollar denominated loan	**20,412**	**20,954**	40,582	38,251
Bank loans over 1 year	**27,395**	**27,395**	14,075	14,075
Finance leases	**365**	**365**	826	826
Preference shares	–	–	500	505
Cash at bank and in hand	**13,586**	**13,586**	7,585	7,585
Derivative financial instruments held to manage the interest rate and currency profile				
Forward foreign currency contracts	**26**	**26**	(41)	(41)
Derivative financial instruments held or issued to hedge the currency exposure on expected future sales and purchases				
Forward foreign currency contracts	–	**10**	–	(276)

The book value of the US dollar private placement is shown in the above table gross of unamortised issue costs of £212,000 (2000: £485,000).

Notes to the financial statements continued

for the year ended 29 September 2001

24 Financial instruments (continued)

Summary of methods and assumptions

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

A fair value has not been disclosed for the Group's investments in Longbore Inc. on the grounds that an estimated fair value cannot be determined with sufficient reliability because this is an unquoted investment. This investment represents a 10% equity holding carried at cost $500,000 (2000: $500,000), less amounts written off of $250,000 (2000: nil) to reflect diminution in value.

Currency exposures

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

Hedges

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

				2001	2000
Currency	**Operating assets £'000**	**Unamortised goodwill £'000**	**Functional currency borrowings £'000**	**Remaining functional currency exposure £'000**	Remaining functional currency exposure £'000
US dollar	**45,816**	**–**	**40,415**	**5,401**	15,271
EU currencies (excluding sterling)	**15,599**	**11,020**	**21,283**	**5,336**	5,111
Other currencies	**6,910**	**–**	**1,562**	**5,348**	4,520
	68,325	**11,020**	**63,260**	**16,085**	24,902

The unrecognised losses on forward foreign currency contracts at 30 September 2000 amounted to £276,000 which was recognised in the profit and loss account for the year ended 29 September 2001. The unrecognised gains on forward foreign currency contracts at 29 September 2001 amount to £10,000 which is expected to be recognised in the profit and loss account for the year ended 28 September 2002.

Notes to the financial statements continued

for the year ended 29 September 2001

25 Provision for liabilities and charges – Group

	Deferred tax £'000	Post retirement benefits £'000	Other £'000	Total £'000
Balance at 1 October 2000	2,017	3,212	3,156	8,385
(Credited)/charged to profit and loss account	(819)	268	150	(401)
Payments in the year	–	(73)	(3,238)	(3,311)
Exchange differences	–	16	–	16
Balance at 29 September 2001	**1,198**	**3,423**	**68**	**4,689**

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

The other provision is in respect of the relocation programme set out in note 5.

26 Contingent liabilities

	Group		Parent	
	2001 £'000	2000 £'000	**2001 £'000**	2000 £'000
Guarantees of overdraft facilities and loans of Group undertakings	–	–	**55,645**	58,693
Other guarantees	**376**	726	–	–
	376	726	**55,645**	58,693

The company and certain subsidiaries have unconditionally guaranteed the liabilities of Avon Rubber & Plastics Inc. in respect of its US $30 million private debt placement and its US $15 million and US $14.5 million five-year term loans and Industrial Flexo S.A. in respect of its 19.7 million euro loan.

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

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

27 Share capital

	2001 £'000	2000 £'000
Authorised:		
37,900,000 ordinary shares of £1 each	**37,900**	37,900
500,000 7.0% cumulative preference shares of £1 each	–	500
	37,900	38,400
Called up, allotted and fully paid:		
27,824,000 ordinary shares of £1 each	**27,824**	27,824
500,000 7.0% cumulative preference shares of £1 each	–	500
	27,824	28,324

On 27 April 2001, the 500,000 7% cumulative preference shares of £1 each were redeemed at 116.67 pence, together with the dividend accrued from 1 January 2001 to 27 April 2001.

At 29 September 2001, a Qualifying Employee Share Ownership Trust ("QUEST"), held 136,578 ordinary shares in the company at a market value of £0.93 per share, all of which were under option to employees. Dividends on the shares held by QUEST have been waived.

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

Notes to the financial statements continued

for the year ended 29 September 2001

28 Share premium account and reserves – Group

	Share premium account £'000	Revaluation reserve £'000	Capital redemption reserve £,000	Profit and loss account £'000
At 1 October 2000	34,070	2,575	–	22,994
Transfer from revaluation reserve to profit and loss account	–	3	–	(3)
Goodwill resurrected on disposal of operation	–	–	–	3,215
Unrealised exchange differences				
on overseas investments	–	–	–	1,200
on related borrowings	–	–	–	(57)
Redemption of preference shares	–	–	500	(584)
Current year loss	–	–	–	(10,132)
At 29 September 2001	**34,070**	**2,578**	**500**	**16,633**
Avon Rubber p.l.c. and subsidiaries	34,070	2,578	500	16,822
Joint venture and associated company	–	–	–	(189)
	34,070	**2,578**	**500**	**16,633**

29 Share premium account and reserves – Parent

	Share premium account £'000	Merger reserve £'000	Revaluation reserve £'000	Capital redemption reserve £,000	Profit and loss account £'000
At 1 October 2000	34,070	16,439	561	–	26,148
Transfer from revaluation reserve to profit and loss account	–	–	(20)	–	20
Unrealised exchange differences	–	–	–	–	212
Redemption of preference shares	–	–	–	500	(584)
Current year profit	–	–	–	–	9,877
At 29 September 2001	**34,070**	**16,439**	**541**	**500**	**35,673**

Notes to the financial statements continued

for the year ended 29 September 2001

30 Net cash inflow from operating activities

	2001 £'000	2000 £'000
Continuing operations		
Total operating profit	**7,059**	9,137
Goodwill amortisation	**617**	623
Amortisation of development costs	**398**	-
Amortisation of loan issue costs	**279**	59
Depreciation of tangible fixed assets	**11,449**	11,175
Impairment of tangible fixed assets	**2,201**	-
Writedown of fixed asset investment	**170**	-
(Profit)/loss on sale of tangible fixed assets	**(55)**	742
Decrease/(increase) in stocks	**2,319**	(3,152)
Decrease/(increase) in debtors	**7,634**	(2,414)
Increase in creditors	**749**	2,997
Increase in pension prepayment	**(202)**	(1,112)
Share of operating profits of joint venture and associate	**(119)**	(162)
(Decrease)/increase in provisions	**(2,877)**	2,301
Effect of foreign exchange rate changes	**468**	833
Net cash inflow from continuing operations	**30,090**	21,027
Discontinued operations		
Operating loss	**(1,881)**	(384)
Depreciation of tangible fixed assets	**496**	736
Decrease/(increase) in stocks	**649**	(223)
Increase in debtors	**(393)**	(1,244)
Decrease in creditors	**(747)**	(201)
Net cash outflow from discontinued operations	**(1,876)**	(1,316)
Total net cash inflow from operating activities	**28,214**	19,711

Notes to the financial statements continued

for the year ended 29 September 2001

31 Reconciliation of net cash flow to movement in net debt

	2001 £'000	2000 £'000
Increase/(decrease) in cash	**9,497**	(18,109)
Movements in loans and finance leases	**3,745**	1,805
Amortisation of loan costs	**(279)**	(59)
Finance leases transferred on sale of subsidiary	–	5
Exchange differences	**(985)**	(2,221)
Movement in net debt in the period	**11,978**	(18,579)
Net debt at the beginning of the year	**(64,945)**	(46,366)
Net debt at the end of the year	**(52,967)**	(64,945)

32 Analysis of net debt

	At 1 Oct 2000 £'000	Cash flow £'000	Amortisation of loan costs £'000	Exchange movements £'000	**At 29 Sept 2001 £'000**
Cash at bank and in hand	7,585	5,852	–	149	**13,586**
Overdrafts	(10,109)	3,645	–	(149)	**(6,613)**
Debt due after 1 year	(54,172)	7,400	(279)	(756)	**(47,807)**
Debt due within 1 year	(7,423)	(4,120)	–	(225)	**(11,768)**
Finance leases	(826)	465	–	(4)	**(365)**
	(64,945)	13,242	(279)	(985)	**(52,967)**

33 Related party transactions

At the end of the year the Group had loans outstanding due from Gold Seal-Avon Polymers PVT totalling £146,000 (2000: £232,000)

There were no other material related party transactions during the year.

Avon Rubber p.l.c
company number 32965

Group undertakings and participating interests

at 29 September 2001

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

Undertakings in which the Group has a participating interest

Ames-Avon Industries*†	49%	USA
Gold Seal-Avon Polymers PVT*†	50%	India
Longbore Inc.	10%	USA

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

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

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

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

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

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

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

Five year record

	2001 £'000	2000 £'000	1999 (restated) £'000	1998 £'000	1997 £'000
Turnover	**278,041**	277,997	266,164	267,085	290,648
Profit on trading	**21,177**	27,798	31,831	31,196	30,471
Share of profits/(losses) of joint venture and associated company	**119**	161	(54)	26	80
	21,296	27,959	31,777	31,222	30,551
Goodwill amortisation	**(617)**	(623)	(163)	-	-
Depreciation	**(11,945)**	(11,911)	(9,734)	(8,871)	(10,713)
Operating profit before exceptional items	**8,734**	15,425	21,880	22,351	19,838
Reorganisation costs	**(1,355)**	(6,672)	-	-	(4,000)
Impairment of tangible fixed assets	**(2,201)**	-	-	-	-
Profit on sale of fixed assets and investments	-	25	1,422	718	-
(Loss)/profit on sale of operations	**(8,916)**	-	-	-	11,047
(Loss)/profit before interest	**(3,738)**	8,778	23,302	23,069	26,885
Interest	**(5,321)**	(3,040)	(1,396)	836	(526)
(Loss)/profit before taxation	**(9,059)**	5,738	21,906	23,905	26,359
Taxation	**918**	(2,960)	(6,257)	(7,003)	(7,064)
(Loss)/profit after taxation	**(8,141)**	2,778	15,649	16,902	19,295
Minority interests	**(30)**	717	133	254	(81)
(Loss)/profit attributable to Avon shareholders	**(8,171)**	3,495	15,782	17,156	19,214
Preference dividends	**(23)**	(35)	(35)	(25)	(25)
Ordinary dividends	**(1,938)**	(6,700)	(6,698)	(6,273)	(5,775)
(Loss)/retained profit	**(10,132)**	(3,240)	9,049	10,858	13,414
Fixed assets and investments	**115,065**	126,892	116,340	68,409	58,523
Working capital	**25,917**	36,142	28,187	22,157	23,720
Provisions	**(4,689)**	(8,385)	(6,276)	(5,263)	(6,156)
Net funds	-	-	-	-	32,480
Assets employed	**136,293**	154,649	138,251	85,303	108,567
Financed by:					
Ordinary share capital	**27,824**	27,824	27,824	27,718	27,434
Reserves attributable to Avon shareholders	**53,781**	59,639	61,233	52,187	77,857
Preference share capital	-	500	500	500	500
Minority shareholders' interests	**1,721**	1,741	2,328	2,426	2,776
Shareholders' capital employed	**83,326**	89,704	91,885	82,831	108,567
Net borrowings	**52,967**	64,945	46,366	2,472	-
Capital employed	**136,293**	154,649	138,251	85,303	108,567
Basic (loss)/earnings per share	**(29.4)p**	12.4p	56.8p	62.4p	70.8p
Dividends per share	**7.0p**	24.2p	24.2p	22.8p	21.15p

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

Avon Rubber p.l.c
company number 32965

Notice of annual general meeting

Notice is hereby given that the annual general meeting of shareholders will be held at Bath Spa Hotel, Sydney Road, Bath on Monday 4 February 2002 at 2.30 p.m. for the following purposes:-

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

2. To receive and consider the report of the directors and the financial statements for the year ended 29 September 2001 (Resolution No. 1).

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

4. To re-elect directors:-

   Mr. N.A.P. Carson retires under the provisions of Article 84 and, being eligible, offers himself for re-election (Resolution No. 3).

   Mr. L.J. Richards retires under the provisions of Article 84 and, being eligible, offers himself for re-election (Resolution No. 4).

   Mr. G.T.E. Priestley retires by rotation and, being eligible, offers himself for re-election (Resolution No. 5).

   Mr. S.J. Willcox retires by rotation and, being eligible, offers himself for re-election (Resolution No. 6).

5. To re-appoint PricewaterhouseCoopers as auditors and to authorize the directors to fix their remuneration (Resolution No. 7).

6. To transact any other routine business.

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

   "That:

   (a) the Avon Rubber p.l.c. Sharesave Option Scheme 2002 (the "Sharesave Scheme") (the principal features of which are summarised in Appendix 1 to the Notice of this Meeting and which is to be constituted by the rules produced in draft to this Meeting and initialled by the Chairman for the purposes of identification) be approved and the Directors be authorised to do all acts and things necessary to operate the Sharesave Scheme including making such modifications as the Directors consider necessary or appropriate to obtain the approval of the Board of the Inland Revenue or to take account of the requirements of the UK Listing Authority and best practice; and

   (b) the Directors be authorised to establish such further schemes for the benefit of employees located in countries other than the UK based on the Sharesave Scheme subject to such modifications as may be necessary or desirable to take account of overseas securities laws, exchange control and tax legislation provided that any Ordinary Shares of the Company made available under such further Sharesave Schemes are treated as counting against any limits on individual participation, or overall participation, in the Sharesave Scheme."

8. As special business to consider and if thought fit pass the following resolution which will be proposed as an Ordinary Resolution (Resolution No. 9):

   "That:

   (a) the Avon Rubber p.l.c. Performance Share Plan (the "Performance Share Plan") (the principal features of which are summarised in Appendix 2 to the Notice of this Meeting and which is to be constituted by the rules produced in draft to this Meeting and initialled by the Chairman for the purposes of identification) be approved and the Directors be authorised to do all acts and things necessary to operate the Performance Share Plan including making such modifications as the Directors consider necessary or appropriate to take account of the requirements of the UK Listing Authority and best practice; and

   (b) the Directors be authorised to establish such further plans for the benefit of employees located in countries other than the UK based on the Performance Share Plan subject to such modifications as may be necessary or desirable to take account of overseas securities laws, exchange control and tax legislation provided that any Ordinary Shares of the Company made available under such further plans are treated as counting against any limits on individual participation, or overall participation, in the Performance Share Plan."

Notice of annual general meeting continued

9. As special business to consider and if thought fit pass the following resolution which will be proposed as an Ordinary Resolution (Resolution No. 10):

   "That the Avon Rubber p.l.c. Employee Share Ownership Trust (the "Trust") (the principal features of which are summarised in the Notice of this Meeting and which is to be constituted by the trust deed produced in draft to this meeting and initialled by the Chairman for the purposes of identification) be approved and the Directors be authorised to do all acts and things necessary to operate the Trust including making such modifications as the Directors consider necessary or appropriate to take account of the requirements of the UK Listing Authority and best practice."

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

    "That the authority conferred on the directors by Article 9.2 of the Company's Articles of Association be renewed for the period ending on the date of the annual general meeting in 2003 or on 4 May 2003, whichever is the earlier, and for such period the section 80 amount shall be £9,274,648."

11. As special business to consider and if thought fit pass the following resolution which will be proposed as a Special Resolution (Resolution No. 12):

    "That the power conferred on the directors by Article 9.3 of the Company's Articles of Association be renewed for the period ending on the date of the annual general meeting in 2003 or on 4 May 2003, whichever is the earlier, and for such period the section 89 amount shall be £1,391,197".

12. As special business to consider and if thought fit pass the following resolution which will be proposed as a Special Resolution (Resolution No. 13):

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

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

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

    (c) the maximum price which may be paid for a share is an amount equal to 105% (one hundred and five percent) of the average of the middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange London official list for the 5 (five) business days immediately preceding the day on which such share is contracted to be purchased; and

    (d) this authority shall expire at the conclusion of the annual general meeting of the Company held in 2003 or, if earlier on 4 August 2003 (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry) unless such authority is renewed prior to such time".

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

By order of the board
C.L. Martin, Secretary
Bradford on Avon
18 December 2001

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

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

Notice of annual general meeting continued

Documents for inspection

The following documents will be available for inspection from the date of this notice of annual general meeting until the close of the annual general meeting, at the registered office of the Company and (in the case of the documents listed in (i), (ii) and (iii) below) at the offices of Linklaters & Alliance, One Silk Street, London EC2Y 8HQ, during normal business hours on any weekday (excluding public holidays) and at the place of the annual general meeting from at least 15 minutes prior to meeting until the close of the meeting:-

(i) Draft Rules of the Avon Rubber p.l.c. Sharesave Option Scheme 2002;

(ii) Draft Rules of the Avon Rubber p.l.c. Performance Share Plan; and

(iii) Draft Trust Deed constituting the Avon Rubber p.l.c. Employee Share Ownership Trust;

(iv) the Register of Directors' interest showing any transactions of Directors and their family interests in the share capital of the Company; and

(v) copies of all Contracts of Service under which Directors of the Company are employed by the Company or any of its subsidiaries.

EXPLANATION OF RESOLUTIONS NOS 8, 9 AND 10:

Resolutions Nos. 8, 9 and 10 are being proposed as Ordinary Resolutions and relate to the proposed introduction of a new sharesave share option scheme, a long-term incentive plan and an employee benefit trust.

The Avon Rubber p.l.c. Sharesave Option Scheme 2002

Resolution 8 seeks shareholders' approval for the introduction of the Avon Rubber p.l.c. Sharesave Option Scheme 2002 (the "Sharesave Scheme") for employees of the Company and its subsidiaries.

The Directors regard the operation of a sharesave scheme as an important element in the Company's share-based remuneration. The Company currently operates a sharesave scheme which expires on 9 February 2002. The proposed Sharesave Scheme is intended to replace the existing scheme.

A summary of the Sharesave Scheme is set out in Appendix 1. The Company intends to obtain Inland Revenue approval to the main part of the Sharesave Scheme. The Sharesave Scheme may be used to provide share options to employees based in non-UK jurisdictions.

The Avon Rubber p.l.c. Performance Share Plan

Resolution No. 9 seeks shareholders' approval for the introduction of the Avon Rubber p.l.c. Performance Share Plan ("the Plan").

In formulating the Company's remuneration policy, the Remuneration Committee believes that senior executives should be motivated to achieve performance superior to the Company's competitors and to deliver sustainable improvements in shareholder value.

In 1996, the Company introduced a long-term incentive plan, which provides matching shares for shares that directors and certain other senior executives purchase from the proceeds of their annual bonuses. This plan allows each share purchased by a participant to be matched by an award of up to three shares for superior TSR performance compared to a group of the FTSE small and medium capitalised companies.

The Remuneration Committee has reviewed the 1996 long-term incentive plan, both in terms of its effectiveness and its market competitiveness, and has come to the conclusion that the current arrangements do not provide sufficient competitive value and that the direct link with the annual bonus over-emphasises the short term, rather than the longer term, which should be the aim of the incentive plan. In particular, in years when no bonus is earned, participants do not have an opportunity to purchase shares under the plan.

As a result, the Remuneration Committee believes that the 1996 long-term incentive plan should be terminated and replaced by a new, more conventional performance share plan.

Under the Plan, options, or conditional awards of shares, may be granted to employees selected by the Remuneration Committee. The maximum value of a grant made under the Plan to an employee in any year will be 100% of his basic salary for that year. It is currently proposed that only the Chief Executive of the Company will receive a grant of 100% of his annual base salary, with lower grants for other participants. The vesting of options or awards will be conditional upon the achievement of performance conditions measured over a three year period and the Remuneration Committee being satisfied that the financial performance of the Company justifies the vesting of options or awards. For the first operation of the Plan, the performance conditions will be based on the Company's Total Shareholder Return ("TSR") relative to the TSR of a comparator group comprising the FTSE small and medium capitalised companies excluding investment trusts.

It is proposed to operate the Plan, subject to shareholder approval, in the financial year 2001/2002 and thereafter it is intended to make grants annually.

A summary of the main terms of the Plan is set out in Appendix 2.

Notice of annual general meeting continued

The Avon Rubber p.l.c. Employee Ownership Trust

Resolution 10 seeks shareholders' approval for the establishment of the Avon Rubber p.l.c. Employee Share Ownership Trust (the "Trust"). The Trust will acquire shares in the Company and hold them for the benefit of the beneficiaries, who include employees and former employees of the Company and its subsidiaries and their dependants. It is intended that the Trust will initially operate in conjunction with the Plan by providing shares to participants in that plan.

It is intended that the trustees of the Trust will be based offshore. The Directors will not be directors of, nor have a direct interest in, the offshore trustee company. The trustees will have the power to subscribe for ordinary shares in the Company and to purchase such shares in the market. The trustees will also have the power to grant options and to provide benefits generally to beneficiaries.

It is intended that the Trust will be funded by way of loans and/or contributions from the Company and/or its subsidiaries. The Trust will not hold shares which represent more than 5% of the Company's issued share capital at any one time.

Recommendation

The members of the Remuneration Committee are unanimous in their view that the adoption of the Sharesave Scheme, the Plan and the Trust are in the best interests of the Company and its shareholders. Accordingly, those Directors recommend that shareholders vote in favour of each of resolutions 8, 9 and 10 as each of them intend to do in respect of their own beneficial holdings of ordinary shares.

EXPLANATION OF RESOLUTION NOS. 11 AND 12

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

The authorities referred to above were renewed at the annual general meeting in 2000 and will, unless again renewed by the shareholders, expire at the end of the forthcoming annual general meeting. The authorisation for the allotment of shares and for the disapplication of pre-emption rights can be renewed by way of a relatively simple ordinary resolution and special resolution respectively. It is therefore proposed as Resolution No. 11 to renew the authority to allot shares up to an aggregate nominal amount of £9,274,648 ("the section 80 amount"), being an amount equal to 33⅓% of the existing ordinary share capital, so that the directors are empowered pursuant to and within that authority to issues shares for cash, either in connection with a rights issue or to persons other than existing shareholders. It is additionally proposed as Resolution No. 12 to provide that the authority to issue shares for cash to persons other than existing shareholders will be limited to issues representing no more than £1,391,197 ("the section 89 amount") being 5% of the issued ordinary share capital as shown in the latest audited financial statements.

Since the issued ordinary share capital is the same as at the same time last year, the proposed section 80 amount and the proposed section 89 amount are the same as the amounts approved at the annual general meeting in 2001. In connection with the section 80 amount the Investment Committees require that the amount should be the lesser of the authorised but unissued share capital and an amount equal to 33⅓% of the existing issued ordinary share capital; this year 33⅓% of the existing issued ordinary share capital is the lesser amount and the section 80 amount had been calculated accordingly.

The authorities sought in Resolutions 11 and 12 comply with the guidelines of the Investment Committees and will, unless subsequently renewed by shareholders, expire at the end of the annual general meeting to be held on 2003 or 4 May 2003 if earlier.

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

Notice of annual general meeting continued

EXPLANATION OF RESOLUTION NO. 13

It is proposed, by way of Resolution No. 13, to renew the Company's power to buy back its own shares. Although the Company's Articles of Association give the Company the relevant power, the Company is only permitted to buy back its shares pursuant to that power if it is additionally authorised to do so by a relevant resolution of the Company.

Resolution No. 13 would grant the Company authority to make purchases on the London Stock Exchange of up to 4,173,591 ordinary shares of £1 each of the Company, subject to the limitations on the minimum and maximum prices set out in the Resolution, for a period up to conclusion of the annual general meeting of the company held in 2003 or, if earlier, 4 August 2003. The maximum number of ordinary shares for which authority to purchase is being sought represents nearly 15% (fifteen percent) of the Company's issued ordinary share capital.

As of 5 December 2001 there were options outstanding over 975,867 ordinary shares, representing 3.5% of the company's ordinary issued share capital. If the authority given by Resolution 13 were to be fully exercised, these options would represent 4.1% of the company's ordinary issued share capital. As of 5 December 2001 there were no warrants outstanding over ordinary shares.

The directors intend to exercise the power given by Resolution No. 13 only when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase the underlying value per share having regard to the intent of the guidelines of institutional investors and that such purchases are in the best interests of shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account before deciding upon this course of action. Any shares purchased in this way will be cancelled and the number of shares in issue will be reduced accordingly.

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

In the opinion of the Directors, Resolution 13 is in the best interests of the shareholders as a whole and the directors intend to seek renewal of these powers at subsequent annual general meetings.

APPENDIX 1

The Avon Rubber p.l.c. Sharesave Option Scheme 2002

The principal terms of the Avon Rubber p.l.c. Sharesave Option Scheme 2002 ("the Scheme") are as follows:-

1. Operation of the Scheme
   The Scheme will be operated by the Remuneration Committee (the "Committee"). Invitations to participate in the Scheme may normally be made within 42 days after the announcement of the Company's results for any period, although the Committee may also make invitations in circumstances which it considers exceptional.
2. Eligibility
   All employees of the Company, and any subsidiary of the Company which is designated by the Directors as a participating company, and who have been employed for a minimum period of service specified by the Committee, which must not exceed five years, are eligible to participate in the Scheme. The Committee has a discretion to invite employees who do not satisfy this condition to participate in the Scheme.
3. Invitations and Grants
   Invitations will be issued to all eligible employees and those wishing to participate in the Scheme must return a completed application form. If valid applications are received for a total number of shares in excess of the Scheme limit, or any other limit imposed by the Committee, then the Committee may scale down applications.

   Following receipt of applications and following scaling down, if applicable, the Committee will grant options to those eligible employees who submitted a valid application form. The grant must be made within 30 days (or 42 days if applications are scaled down) of the date of invitations.
4. Option price
   The option price, which will be set by the Committee, must not be less than 80 per cent (or such other percentage determined by the applicable legislation) of (i) the middle market quotation of an ordinary share of the Company on the day immediately before invitations were issued; or, if the Committee so decides, (ii) the average price of the ordinary shares over the three days immediately preceding the date of invitation. If shares are to be subscribed, the option price must not be less than the nominal value of an ordinary share.
5. Individual limits
   The Scheme operates in conjunction with a savings contract. Participants in the scheme must make monthly savings of between £5 and £250 (or such other amounts as the savings contracts may specify from time to time).
6. Exercise of options
   Options may usually be exercised in the six month period following the maturity date of the related savings contract which may be the third, fifth or seventh anniversary of the commencement of the contract.

   Generally, if a participant's employment within the Avon Rubber group terminates before he has exercised his option, his option will lapse on the date of such termination.

   However, where the termination of employment with the Avon Rubber group is due to retirement (on reaching age 65 or at any other age specified under his contract of employment), redundancy, injury or disability, or on a sale of the business or subsidiary for which the participant works, then the participant will have 6 months after termination of employment to exercise his option.

   If termination of employment occurs more than 3 years after the date when the option was granted, then if the termination is due to retirement at any age specified under the contract of employment, early retirement with the agreement of the employer or due to any other reason permitted by the Committee, then the participant will have 6 months after leaving to exercise his option.

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7. Take-overs
 Except as mentioned below, in the event of a change of control of the Company, options will be exercisable for a limited period after the change of control. Optionholders may, with the agreement of the acquiring company, exchange their options for equivalent options over shares in the acquiring company.

 If the acquiring company obtains control of the Company and the shareholders of that company are substantially the same as the shareholders of the Company immediately before the change of control, or if the obtaining of control amounts to a merger, then options will not be exercisable if the acquiring company agrees to exchange existing options for equivalent options over shares in the acquiring company.

8. Scheme limits
 The number of unissued shares which may be allocated under the Scheme on any day shall not, when added to the aggregate of the number of shares issued or issuable by the Company under any employees' share scheme in the previous 10 years, exceed 10% of the issued share capital on that day.

 No options may be granted more than 10 years after adoption of the Scheme by shareholders.

9. Amendments
 On a variation of the Company's share capital by way of capitalisation or rights issue, sub-division, consolidation or a reduction, the option price and the number of shares comprised in an option may be varied at the discretion of the Committee subject to prior Inland Revenue approval.

 The rules governing the Scheme can be amended by the Committee as it thinks fit. However, the provisions relating to the eligibility of employees, the terms of the Options, the adjustment of the Options in the event of a variation of share capital and the limits on benefits or maximum entitlements cannot be altered to the advantage of participants without the prior approval of shareholders. However, if the amendments are minor and are designed to benefit the administration of the Scheme, to take account of a change in legislation or to obtain or maintain favourable exchange control, tax or regulatory treatment for participants or for the Company or any group company then shareholder approval is not required.

10. General
 Any shares allotted on the exercise of Options rank pari passu with shares in issue at the date of allotment but shall not rank for dividends whose record date precedes the date of exercise of the Option. Options may not be transferred or charged.

11. Benefits
 Benefits under the Scheme are non-pensionable.

APPENDIX 2

The Avon Rubber p.l.c. Performance Share Plan

The principal terms of the Avon Rubber p.l.c. Performance Share Plan ("the Plan") are as follows:-

1. Operation of the Plan
 The Plan will be operated by the Remuneration Committee (the "Committee"). If the Committee decides to make grants under the Plan, it will normally do so within 42 days after the announcement of the Company's results for any period, although it may also make grants in circumstances which it considers exceptional. The Plan will first operate following shareholder approval of the Plan.

2. Eligibility
 All employees of the Avon Rubber p.l.c. group of companies (the "Group") will be eligible to participate in the Plan, provided they are not within one year of their anticipated retirement date at the date of the grant.

3. Grants
 The Committee will select employees who are to participate in the Plan. Participants will receive a "Grant", which can be either a right to acquire shares (an "Option") or a conditional award of shares (a "Conditional Award"). The vesting of Grants (being the time when an Option becomes exercisable or when a participant becomes entitled to receive shares in relation to a Conditional Award) is conditional upon the satisfaction of certain conditions (the "Performance Condition").
 The maximum value of a Grant which can be made under the Plan to an employee in any year will be one times his basic salary for that year (excluding any Grant made to cover a participant's social security liability associated with the Grant). It is currently proposed that only the Chief Executive will receive a Grant of 100% of his annual base salary, with lower Grants for other participants.

4. Performance Condition
 The Performance Condition will be measured by reference to a 3-year period (the "Performance Period"). At the end of a Performance Period, the Committee will review whether the Performance Condition has been achieved. Even if the Performance Condition has been achieved, the Committee must be satisfied that the financial performance of the Company justifies the vesting of Grants. If the Committee is so satisfied, it will then calculate the number of shares which will vest in respect of each Grant by reference to the extent to which the Performance Condition has been satisfied.

 For the first operation of the Plan, the Performance Condition will be based on the Company's Total Shareholder Return ("TSR") relative to the TSR of a comparator group comprising the FTSE small and medium capitalised companies excluding investment trusts. The first performance period will be measured from the start of the current financial year.

 If the Company's TSR is below the median TSR of the comparator group, then no shares subject to a Grant will vest.

 If the Company's TSR is equal to the median TSR of the comparator group, then 40% of the shares subject to a Grant will vest.

 100% of the number of shares subject to a Grant will vest if the Company's TSR is equal to, or exceeds, the upper quartile TSR of the comparator group. For TSR performance between median and upper quartile, shares subject to a Grant will vest on a pro-rata basis between 40% and 100%.

 The Committee may vary the Performance Condition if events occur which would make an amended Performance Condition a fairer measure of performance.

5. Vesting of Grants
 Following vesting of a Conditional Award, the shares will be transferred to a participant on the Release Date (which will usually be 30 days from the date of vesting). Generally, if a participant's employment terminates after the end of a Performance Period but before the Release Date, no shares will be transferred, unless the termination of employment is due to death, retirement, ill health, injury or disability or the Committee determines otherwise.

 In relation to an Option, following vesting, a participant may exercise his Option for a nominal exercise price of £1. Once vested, Options will normally be exercisable until the seventh anniversary of their date of grant.

 In relation to the first grant of Options, it is currently proposed that participants will be liable for any employer national insurance contributions arising on the gain made between the date of vesting and the date of exercise.

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6. Termination of Employment
   Generally, if a participant's employment within the Group terminates before the end of a Performance Period, his Grant will lapse on the date of such termination.

   However, where the termination of employment before the end of a Performance Period is due to retirement (at normal age or with the Company's consent), redundancy, ill-health, injury or disability or in any other circumstances which the Committee considers appropriate, then the Grant will continue in accordance with the Plan. The Grant will vest at the end of the Performance Period in accordance with the Performance Condition, but the extent to which the Grant vests will be pro-rated by the amount of time which has passed between the start of the Performance Period and the leaving date.

   If a participant who holds an Option leaves employment in one of the circumstances referred to above then his Option will remain exercisable for 6 months after the later of: (i) the date of vesting and (ii) the date of termination of employment.

   If a participant dies before the end of a Performance Period, a proportion of his Grant will vest on the date of death. The proportion reflects the amount of time which has passed between the start of the Performance Period and the date of death. Options will lapse twelve months after a participant's death.

7. Take-overs
   In the event of a substantial change of control of the Company arising before the normal vesting of a Grant, a proportion of the Grant will vest at the time of the change of control. In deciding upon the appropriate proportion, the Committee will take into consideration the Company's performance, the amount of time which has elapsed since the start of the Performance Period and any other circumstances it thinks are relevant.

8. Plan Limits
   The number of unissued shares which may be allocated under the Plan on any day shall not, when added to the aggregate of the number of shares issued or issuable by the Company under any employees' share scheme in the previous 10 years, exceed 10% of the issued share capital on that day.

   The number of unissued shares which may be allocated under the Plan on any day shall not, when added to the aggregate of the number of shares issued or issuable by the Company under any executive share scheme in the previous 10 years, exceed 5% of the issued share capital on that day.

   In calculating the above limits, any shares where the right to acquire them has been surrendered or has lapsed will be disregarded.

   The Plan will terminate on the tenth anniversary of its adoption.

9. Amendments
   If there is a variation in the share capital of the Company, or any other corporate event which affects Grants, the Committee may make such adjustment to the number of shares comprised in a Grant as it thinks appropriate.

   The rules governing the Plan can be amended by the Committee as it thinks fit. However, the provisions relating to the eligibility of employees, the terms of Grants, the adjustment of Grants in the event of a variation of share capital and the limits on benefits or maximum entitlements cannot be altered to the advantage of participants without the prior approval of shareholders. However, if the amendments are minor and are designed to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable exchange control, tax or regulatory treatment for participants or for the Company or any group company then shareholder approval is not required.

   The Committee may amend the rules of the Plan to take account of or to mitigate or to comply with overseas taxation, securities laws, exchange control laws or other laws, so long as such amendment does not make participation in the Plan for overseas participants generally more favourable than for UK participants.

10. Benefits
    Benefits under the Plan are non-pensionable.